State of Delaware

Basic Financial Statements

For the Fiscal Year Ended June 30, 2010

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State of Delaware
Basic Financial Statements
For the Fiscal Year Ended June 30, 2010
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KPMG LLP
1601 Market Street
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Independent Auditor's Report

The Honorable Governor and
Honorable Members of the State Legislature
State of Delaware

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware (the State), as of and for the year ended June 30, 2010, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component units. The financial statements of these entities were audited by other auditors whose reports thereon have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware, as of June 30, 2010, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 1 (b) to the financial statements, the State adopted Governmental Accounting Standards Board Statement (GASB) No. 51, *Accounting and Financial Reporting for Intangible Assets* during fiscal year 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2010, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and required supplementary information listed in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

December 29, 2010

Management's Discussion and Analysis

The following is a discussion and analysis of the State of Delaware's (the State's) financial activities as of and for the fiscal year ended June 30, 2010. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal, which can be found on pages i-vi of this report, and the State's financial statements, which follow this section.

These financial statements have been prepared using the financial accounting model adopted by the Governmental Accounting Standards Board (GASB).

Financial Highlights

- The assets of the State exceeded its liabilities at the close of the most recent fiscal year by \$5,202.5 million (net assets). Component units reported net assets of \$775.1 million, an increase of \$6.2 million from the previous year.

- As a result of its operations, the primary government's total net assets decreased by \$2.2 million (less than 0.1%) in fiscal year 2010 when compared to the previous year's ending net assets. Net assets of governmental activities increased by \$37.8 million (1.7%) from the previous year, while net assets of the business-type activities decreased \$39.9 million (1.3%) from the previous year.

- The State's governmental funds reported combined ending fund balances of \$1,422.7 million, an increase of \$111.6 million (8.5%) in comparison with the prior year.

- At the end of the current fiscal year, the unreserved fund balance for the general fund was \$843.6 million, which was 22.5% of total general fund expenditures. Some of the unreserved fund balance is not available for new spending as such funds have been committed based on State statutes that can be amended by legislation.

- The State's total general obligation debt increased \$28.1 million (1.9%) during fiscal year 2010 to \$1,497.4 million. Of the State's outstanding debt, \$516.0 million (34.5%) has been issued on behalf of local school districts, which is supported by the property tax revenues of those districts.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State's basic financial statements. The State's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information and other supplementary information, in addition to the basic financial statements.

Government-wide financial statements The government-wide financial statements are designed to provide readers with a broad overview of the State's operations, in a manner similar to a private sector business.

The statement of net assets presents information on all of the State's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The statement of activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event that created the change occurs, regardless of the timing of related cash flows. As a result, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the State that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the State include general government, health and children's services, judicial and public safety, natural resources and environmental control, labor and education. The business-type activities of the State include transportation, lottery and unemployment services.

The government-wide financial statements include not only the State (known as the primary government), but also legally separate entities for which the State is financially accountable. These entities include the Delaware State Housing Authority, the Diamond State Port Corporation, the Riverfront Development Corporation, the Delaware State University, the Delaware Technical and Community College Educational Foundation and 21 charter schools. Financial information for these component units is reported separately from the financial information presented for the primary government. The government-wide financial statements can be found on pages 21-23 of this report.

Fund financial statements A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The State's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the governmental fund financial statements focus on near-term inflows and outflows of available resources, as well as on balances of available resources on hand at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for government funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The State's governmental funds include the general, federal, local school district, and capital projects funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balance (deficit) for these funds.

The basic governmental funds financial statements can be found on pages 24 - 27 of this report.

The State budgets and controls its financial activities on the cash basis of accounting. In compliance with State law, the State records its financial transactions in either of two major categories – the General Fund or the Special Fund. References to these funds in this report include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. The State adopts an annual appropriated budget for its budgetary general fund. A budgetary comparison statement has been provided for the budgetary general fund to demonstrate compliance with the budget. The schedule can be found on page 124 of this report.

Proprietary funds Proprietary funds charge customers for the services they provide – whether they are provided to outside customers (enterprise funds) or other State agencies and other governments (internal service funds). Proprietary funds provide the same type of information as the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for the Lottery, Unemployment Insurance Trust Fund and the Delaware Department of Transportation (DelDOT), all of which are considered to be major funds of the State.

The State uses proprietary funds to account for operations of the Unemployment Insurance Trust Fund, Delaware State Lottery (Lottery), and DelDOT as business-type activities in the government-wide financial statements. The State does not maintain any internal service funds.

The basic proprietary fund financial statements can be found on pages 28 - 30 of this report.

Fiduciary funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. The pension, other post-employment benefit, and investment trust funds are the primary fiduciary funds for the State. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 31 - 32 of this report. Combining fiduciary fund statements can be found on pages 136 - 142.

Notes to the financial statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 36 - 119 of this report.

Required supplementary information In addition to the basic financial statements and accompanying notes, this report presents certain Required Supplementary Information (RSI) concerning the status of the State's legally adopted budget, the maintenance of the State's infrastructure and additional schedules related to funding status and progress, annual pension costs and actuarial methods and assumptions for the State's pension trusts. The RSI can be found on pages 122 - 134 of this report.

Other supplementary information Other supplementary information includes the introductory section, the combining financial statements for fiduciary and local school funds, and the statistical section.

Statewide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's assets exceeded its liabilities by $5,202.5 million at the close of the most recent fiscal year.

The largest portion of the State's net assets (88.5%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment) less any related outstanding debt used to acquire those assets. The State uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Restricted net assets, comprising 6.2% of total net assets, represents resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The remaining portion, unrestricted net assets (5.3%), may be used at the State's discretion; however, some of these funds have been appropriated based on State statutes.

Condensed Financial Information - Primary Government
As of June 30, 2010
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other non-current assets	$ 2,406,051	$ 2,400,728	$ 532,782	$ 580,087	$ 2,938,833	$ 2,980,815
Capital assets	3,416,605	3,157,814	3,899,468	3,824,481	7,316,073	6,982,295
Total assets	5,822,656	5,558,542	4,432,250	4,404,568	10,254,906	9,963,110
Long-term liabilities outstanding	2,823,441	2,376,206	1,239,200	1,170,735	4,062,641	3,546,941
Other liabilities	743,208	964,110	246,516	247,356	989,724	1,211,466
Total liabilities	3,566,649	3,340,316	1,485,716	1,418,091	5,052,365	4,758,407
Net assets:						
Invested in capital assets, net of related debt	1,799,599	1,665,199	2,803,634	2,727,661	4,603,233	4,392,860
Restricted	186,430	186,430	137,831	202,220	324,261	388,650
Unrestricted	269,978	366,597	5,069	56,596	275,047	423,193
Total net assets	$ 2,256,007	$ 2,218,226	$ 2,946,534	$ 2,986,477	$ 5,202,541	$ 5,204,703

The capital assets of the governmental activities increased $258.8 million (8.2%) since June 30, 2009. Primary increases are a result of significant renovations to, and expansions of, existing school buildings across all counties to accommodate the rise in student population

The State's securities lending activities were discontinued on December 4, 2009. Therefore at June 30, 2010, investments held for securities lending transactions and the corresponding collateral held for securities lending transactions were $0.0 million. As a result, both current assets and other liabilities decreased by $211.2 million from fiscal year 2009.

The increase in governmental activities long-term liabilities outstanding of $447.2 million (18.8%) is primarily due to GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB). At June 30, 2010, the long-term obligation for OPEB was $986.9 million, an increase of $324.4 million (49.0%) from fiscal year 2009. The OPEB obligation will increase each year as the State continues to defer full funding of its annual required contribution. Additional information for the OPEB obligation can be found in Note 14 of the financial statements. In addition, the general obligation long term debt increased by $95.5 million (6.9%). The State's debt as a percentage of the State's personal income was 7.4% in fiscal year 2009 and 7.5% in fiscal year 2010. The State's relatively high debt burden reflects its centralized role in financing facilities, such as schools and prisons, which in other states receive capital through local entities. Bond sales during fiscal year 2010 included two refundings, including advance refundings, which resulted in an increase in prepaid assets of $34.6 million.

The decrease in business-type current assets was primarily from the decrease of $60.8 million in current assets in the Unemployment Trust Fund. The decrease was caused by an increase of benefits paid. The decrease was offset by an increase in DelDOT's current assets due to unspent bond proceeds from the issuance of Grant Anticipation Revenue Vehicle Bonds (GARVEE) during the fiscal year, which resulted in larger investment balances in DelDOT. Long-term liabilities outstanding were also increased as a result of increased revenue bonds payable and post-employment benefits payable. This information can be found on page 2 of the DelDOT's financial statements as of and for the year ended June 30, 2010.

The following condensed financial information was derived from the government-wide Statement of Activities and reflects the changes in net assets during the fiscal year.

Changes in Net Assets - Primary Government
For Year End June 30, 2010
(Expressed in Thousands)

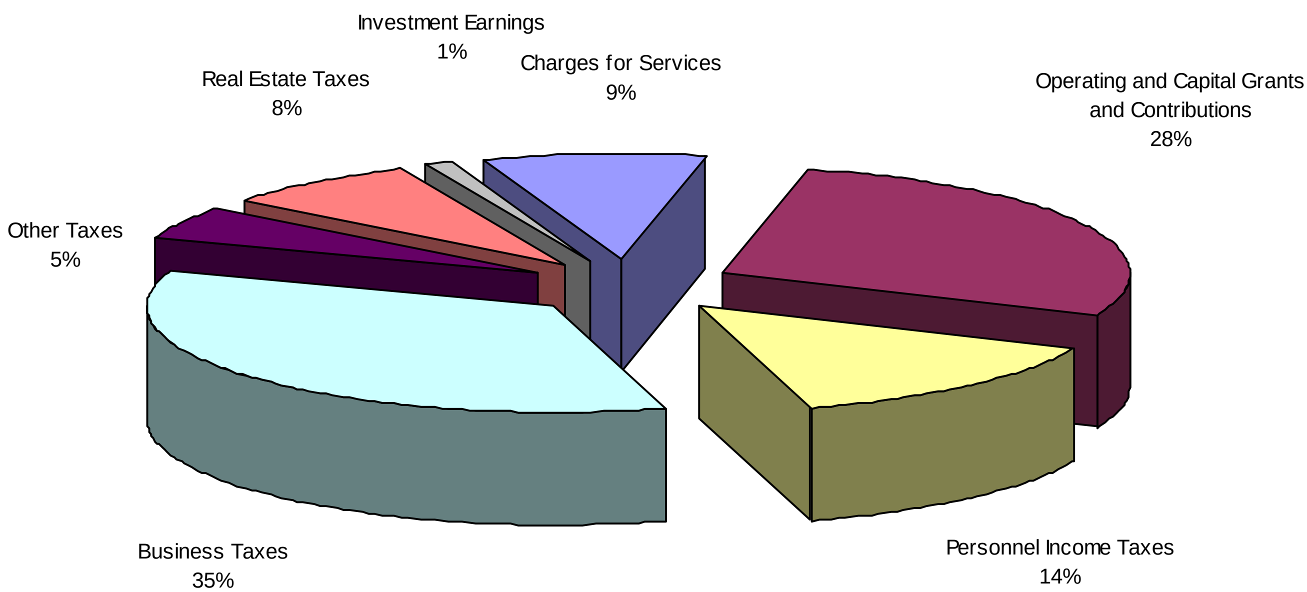
	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	$ 453,202	$ 344,153	$ 1,236,049	$ 1,206,962	$ 1,689,251	$ 1,551,115
Operating grants and contributions	1,460,903	1,199,961	196,889	-	1,657,792	1,199,961
Capital grants and contributions	30,861	9,936	238,276	193,219	269,137	203,155
General revenues:						
Taxes:						
Personal income taxes	760,617	914,460	-	-	760,617	914,460
Business taxes	1,820,023	1,655,938	-	-	1,820,023	1,655,938
Real estate taxes	434,718	428,878	-	-	434,718	428,878
Other taxes	250,630	238,786	-	-	250,630	238,786
Investment income (loss)	20,185	41,140	(15,336)	11,686	4,849	52,826
Gain (loss) on sale of assets	-	-	(415)	235	(415)	235
Miscellaneous	15,546	29,197	(1,000)	(1,000)	14,546	28,197
Total revenues	5,246,685	4,862,449	1,654,463	1,411,102	6,901,148	6,273,551
Expenses:						
General Government	436,025	551,390	-	-	436,025	551,390
Health and Children's Services	2,059,215	1,980,118	-	-	2,059,215	1,980,118
Judicial and Public Safety	624,565	641,296	-	-	624,565	641,296
Natural Resources and Environmental Control	148,776	154,871	-	-	148,776	154,871
Labor	74,163	77,911	-	-	74,163	77,911
Education	2,146,258	2,102,297	-	-	2,146,258	2,102,297
Interest Expense	55,782	57,570	-	-	55,782	57,570
Lottery	-	-	353,449	388,260	353,449	388,260
Transportation	-	-	626,012	602,296	626,012	602,296
Unemployment	-	-	379,065	203,817	379,065	203,817
Total expenses	5,544,784	5,565,453	1,358,526	1,194,373	6,903,310	6,759,826
Increase (decrease) in net assets before transfers	(298,099)	(703,004)	295,937	216,729	(2,162)	(486,275)
Transfers	335,880	335,468	(335,880)	(335,468)	-	-
Increase (decrease) in net assets	37,781	(367,536)	(39,943)	(118,739)	(2,162)	(486,275)
Net assets - beginning of year	2,218,226	2,585,762	2,986,477	3,105,216	5,204,703	5,690,978
Net assets - end of year	$ 2,256,007	$ 2,218,226	$ 2,946,534	$ 2,986,477	$ 5,202,541	$ 5,204,703

Governmental activities Since fiscal year 2009, the net assets for governmental activities increased by $37.8 million, while the net assets for business-type activities decreased by $39.9 million. A comparison of the cost of services by function for the State’s governmental activities is shown in the following chart, along with the revenues used to cover the net expenses of the governmental activities. Key elements of the decrease in the State’s governmental activities net assets are as follows:

Total general revenues decreased overall by $6.7 million (0.2%) relating to decreases in net personal income taxes of $153.8 million and investment earnings of $21.0 million. The decrease in personal income taxes is primarily due to reduction in taxes receivable resulting from a modification of the write-off period from ten years to six. Real estate taxes increased by $5.8 million and business and other taxes increased by $175.9 million. During the fiscal year 2010, the State enacted a taxpayer amnesty program to allow taxpayers (both business and personal) to file taxes for prior years with no penalties. This resulted in an increase in business taxes collected.

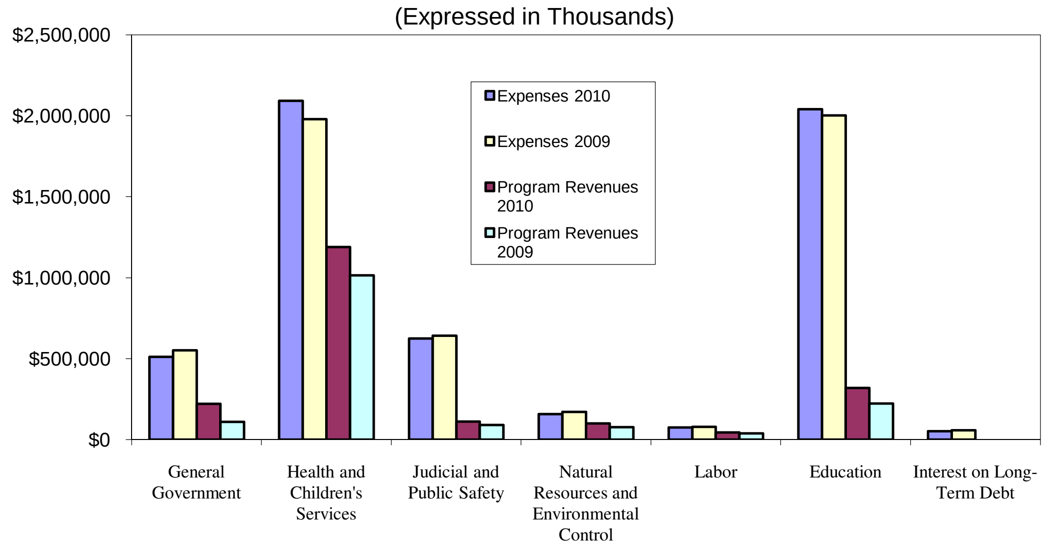
Program revenues increased by $390.9 million (25.2%) from the prior year partially due to an increase in operating grants of $260.9 million. Of this amount, $124.5 million relates to increased federal revenues at Health and Children's Services as a result of increased spending for Medicaid (the State's largest public assistance program) and $89.9 million relates to increased federal revenue at Education. Also, charges for services increased by $109.0 million. Of this increase, $45.0 million was in general government and $7.3 million was in judicial and public safety due to increases in charges relating to licenses, fines, fees and permits.

Revenues by Source – Governmental Activities



Expenses for governmental activities decreased during fiscal year 2010 by $20.7 million (0.4%). This decrease is primarily due to the decrease in general government of $115.4 million due to decrease in spending from mandated spending reductions. Offsetting this decrease is due to Health and Children's Services increased spending of $79.1 million due to increase in the population served and health care costs. Educational expenses increased by $44.0 million due to the continued increase in student population resulting in additional education personnel costs and operation costs.

Expenses and Program Revenues- Governmental Activities



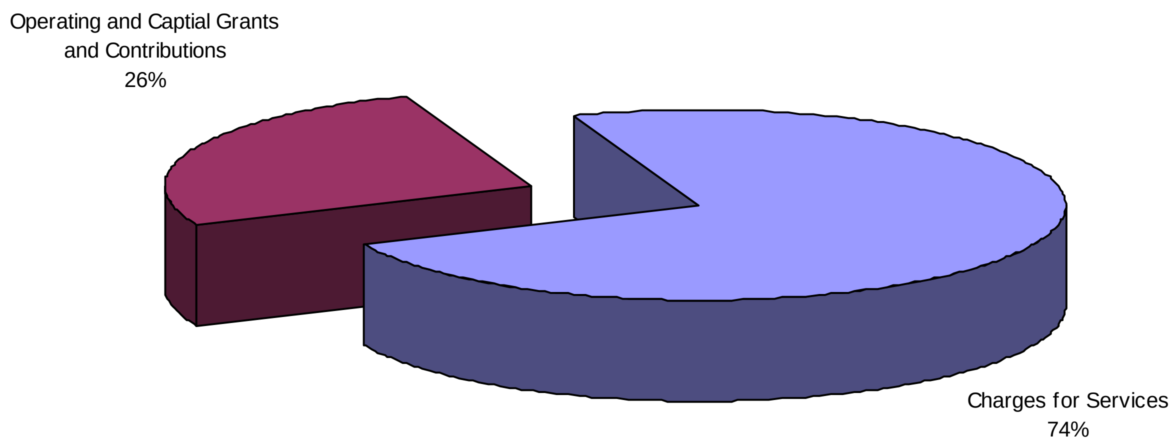
Business-type activities The net assets for business-type activities decreased by $39.9 million since fiscal year 2009. This decrease is comprised of a $20.2 million increase in net assets for DelDOT, a $60.7 million decrease in the Unemployment Insurance Trust Fund, and a less than $0.6 million increase of Lottery's net assets.

There was a decrease in net assets of the Delaware Unemployment Insurance Trust Fund of $60.7 million. There was an increase in operation revenues and operating expenses of $239.8 million and $175.2 million, respectively. This was due to the federal government funding the benefits for the Trust Fund.

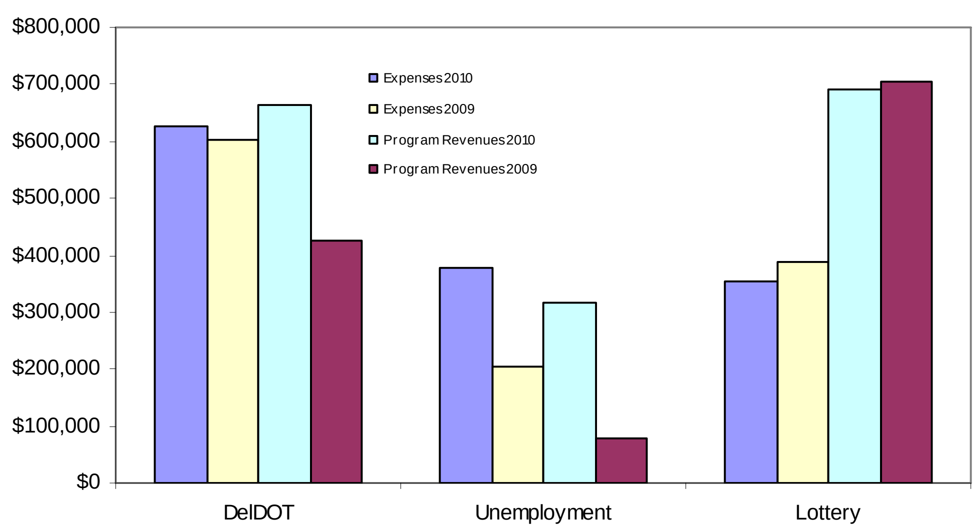
DelDOT's net assets at June 30, 2010 were $20.2 million higher than at June 30, 2009. DelDOT's total operating revenues increased by $0.9 million (0.2%) while operating expenses increased by $20.4 million (3.6%). The October 1, 2009 toll and fee increases were the main contributors of the operating revenue increase. The largest contributing factor for the increase in operating expenses was the increase in vehicle operations expenses, primarily from higher fuel costs.

The Lottery's net assets changed by less than $0.6 million. By law, the Lottery's net assets cannot exceed $1.0 million. Revenue for the Lottery decreased by $14.6 million (2.1%) over last year due to a $0.3 million decrease in traditional games revenue and a $14.3 million decrease in video lottery revenues. The Lottery transferred $334.6 million in gaming revenues to the State, an increase from fiscal year 2009 of $19.8 million. The total costs of games and prizes decreased by $37.5 million (9.8%) over the previous year.

Revenues by Source – Business-type Activities



Expenses and Program Revenues – Business-type Activities



Financial Analysis of the State's Funds

As noted earlier, the State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the State's financing requirements. Unreserved fund balances may serve as a useful measure of a government's net resources at the end of the fiscal year.

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of $1,422.7 million, an increase of $111.6 million over the prior year. Of the aggregate fund balances, $1,057.8 million, approximately 74.3% constitute unreserved fund balances.

Approximately $364.9 million of the fund balance is reserved and is not available for new spending for the following reasons: 1) to liquidate contracts and purchase orders of the prior period ($131.1 million), 2) set aside for long-term portion of loans and notes receivable ($39.4 million) 3) set aside for the budgetary reserve account ($186.4 million), and 4) for inventories and other assets ($8.0 million).

General fund The general fund accounts for the operation and administration of the State. Total general fund balance increased by $140.2 million for the fiscal year.

Total general fund revenues increased by $76.4 million (2.3%) due to several factors. The business taxes increased by $164.1 million partly due to the effects of a full year of tax increases that took effect in January 2009 and partly due to collections from the tax amnesty program that was implemented during fiscal year 2010. This increase was offset by a reduction in personal income tax revenue of $170.7 million primarily due to a reduction in the write-off period for receivables from 10 years to six, as well as a continuing level of higher unemployment. Due to the effect of adverse market conditions on investments and lower interest rates, interest and other investment income decreased by $17.7 million.

Total general fund expenditures decreased by $191.7 million (4.9%). This was primarily due to decreases in Health and Children's Services of $55.8 million, General Government of $101.0 million, Education of $57.8 million and Natural Resources and Environmental Control of $13.8 million. The decrease in expenditures for General Government, Education and Natural Resources and Environmental Control were attributable to the increase on the federal funding as a result of the stimulus package.

At the end of the current fiscal year, unreserved fund balance of the general fund was $843.6 million, while total fund balance reached $1,196.4 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 22.5% of total general fund expenditures, while total fund balance represents 32.0% of total fund expenditures or 117 days of operations.

Federal funds Federal funds represent pass through grants used for designated purposes. These funds report federal grant revenues and the related expenditures to support the State's grant programs. Total federal fund revenues and expenditures increased by $231.8 million and $269.8 million, respectively. The primary increase in federal revenues was due to the American Recovery and Reinvestment Act (ARRA). The largest portion of this increase in expenditures is in Health and Children's services, which accounted for $118.3 million (12.9%), resulting from increased costs in the Medical Assistance and the Temporary Assistance for Needy Families programs. Also, spending on energy programs by the Department of Natural Resources and Environmental Control increased expenditures by $12.4 million. Education has increased by $117.4 million due to the operating needs of the schools for personnel and supply costs.

Local School funds These funds are used to account for activities relating to the State's local school districts, which are funded by locally raised real estate taxes and other revenues. The fund balance increased by $81.0 million to $308.4 million. Spending decreased because of operating costs being covered by federal funds.

Capital Project funds Capital Project funds are used to account for the construction and acquisition of capital assets of the primary government. Capital outlay expenditures totaled $241.1 million in fiscal year 2010, a decrease of $29.8 million. State legislation authorizes certain capital project expenditures prior to the issuance of bonds in an aggregate amount not to exceed 3% of general fund revenue.

Proprietary funds The State's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The proprietary fund financial statements provide separate information for the Lottery, Unemployment Insurance Trust Fund and the DelDOT fund, all of which are considered to be major funds of the State.

Total proprietary funds net assets decreased in fiscal year 2010 by $39.9 million as a result of operations. Page 12 discusses the changes in net assets of the business-type activities.

General Fund Budgetary Highlights

The budgetary general fund is the chief operating fund of the State. At the end of the fiscal year, total fund balance increased by $158.6 million (41.4%). Revenues were $85.2 million (2.5%) higher than the previous fiscal year. This was primarily due to increases in abandoned property collections of $101.1 million (25.8%), corporate franchise tax of $58.9 million (10.3%), gross receipts tax of $30.5 million (18.6%), and lottery earnings of $27.5 million (11.1%). Offsetting these revenue increases were decreases in the personal income tax of $43.7 million (4.0%), bank franchise tax of $27.8 million (34.0%) and insurance premiums tax of $25.5 million (32.9%). While the State's revenue performance reflected continued weakness in the U.S. economy, collections were bolstered by rate increases in the personal income, corporate franchise and gross receipts taxes; a tax amnesty program; and the expansion of the State's lottery offerings.

Expenditures were $219.1 million (6.6%) less than the previous fiscal year. Salaries and wages decreased by $70.8 million (5.8%) due to an employee pay cut of 2.5% and reduction of staff due

to attrition. Grants-in-Aid decreased by $70.4 million (26.5%) while Medicaid increased by $9.3 million (2.2%). In addition, contractual services decreased by $31.3 million (10.9%), personal services and travel decreased by $24.0 million (11.8%) and capital outlays decreased by $21.4 million (51.6%) reflecting various cost cutting measures. Debt service payments increased by $17.8 million (11.4%).

The original budget authorizes current fiscal year operating and administrative expenditures. Included in the final budget are the original budget, prior year encumbrances, multi-year project budgetary carry-forwards from the prior fiscal years, and all modifications to the original budget. The most significant components are the original budget and carry-forwards of prior fiscal year. The unused appropriations from a prior year will carry forward to the final budget for authorized capital projects and grants until the funds are spent.

Actual expenditures were within the final budget in all departments, with significant favorable budget variances in the following departments:

- $76.6 million in the Executive Department for funds budgeted, but not spent on an ongoing significant capital improvement project to upgrade the State's emergency response system and other minor capital projects;
- $58.3 million in the Department of Education for funds budgeted, but not spent on educational projects such as the statewide testing program to assist the State with compliance of the No Child Left Behind Act;
- $10.3 million in Natural Resources and Environmental Control for expenditures authorized in the final budget but not spent on energy incentives and incentives for improving the environment such as storm water retention ponds, environmental clean up, and water conservation; and,
- $31.6 million in the Department of Health and Social Services, as well as $11.3 million in the Department of Children, Youth and Their Families for programs that have been rendered but not yet billed such as Delaware Healthy Children Program costs.

Funded projects, which are not completed by year-end, may carry over unspent funds into fiscal year 2011. Unspent funds are reflected in the final budget which may cause variances from original budget.

Capital Assets and Debt Administration

Capital assets The State's investment in capital assets for its governmental and business-type activities, as of June 30, 2010, amounted to $7,316.1 million (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings, vehicles and equipment, easements, roads, highways, and bridges. The total increase in capital assets for governmental activities was $258.8 million (8.2%) and the increase for business-type activities was $75.0 million (2.0%).

Major capital asset acquisitions during the current fiscal year included the following:

- Completion of new schools and renovations of existing schools of $225.5 million. In addition, construction-in-progress for governmental activities was $399.8 million as of June 30, 2010. Approximately 84.2% of this total is related to the building of new schools and improvements to existing schools across all counties, with the majority of spending occurring in New Castle County.
- The increase in business-type activities is due to increased spending at DelDOT for the US 301 toll road project.

As allowed by GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the State has adopted an alternative process for recording expense related to selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include 4,447 center line miles of roads and 1,566 bridges that the State is responsible to maintain.

DelDOT performs condition assessments of eligible infrastructure assets at least every three years. Currently, road condition assessments are conducted every two years. Historically, road condition assessments were conducted every year. Recent changes to the road condition vendor contract have resulted in the inability to provide infrastructure ratings for fiscal year 2010. The Department's assessment plan will ensure that all infrastructure assets are assessed and evaluated within the three-year period.

Of the State's 1,556 bridges that were rated in fiscal year 2009, 73.5% received a good or better BCR rating, 19.0% were rated fair, and 7.5% received a substandard rating. Of the 7,330,395 square feet of bridge deck that was rated, 92.8% or 6,800,531 square feet received an OPC condition rating of good or better, 6.9% received a fair rating, and 0.3% received a substandard deck rating. In 2008, 4,447 center line miles were rated; 90.1% received a fair or better OPC rating and 9.9% received a poor rating.

The fiscal year 2010 estimate to maintain and preserve DelDOT's infrastructure was $102.2 million, but the actual expenditures were $336.2 million, which is $234.0 million over the estimate. The estimated expenditures represent annual bond bill authorizations and the actual expenditures represent the current year spending, which includes cumulative authorizations.

Additional information on the State's capital assets can be found in Note 1 on pages 36 - 48, Note 12 on pages 94 - 96 and on pages 128 – 129 in the Required Supplementary Information.

A summary of the State's primary government's capital assets, net of depreciation is provided below:

State of Delaware Capital Assets as of June 30, 2010
Net of Depreciation
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	$ 427,496	$ 456,328	$ 276,761	$ 249,775	$ 704,257	$ 706,103
Land improvements	79,332	72,325	-	-	79,332	72,325
Buildings	2,215,317	2,034,439	65,749	65,868	2,281,066	2,100,307
Easements	256,653	166,715	-	-	256,653	166,715
Equipment and vehicles	37,963	40,069	124,279	123,470	162,242	163,539
Infrastructure	-	-	3,432,677	3,385,364	3,432,677	3,385,364
Construction-in-progress	399,844	387,938	-	-	399,844	387,938
Total	$ 3,416,605	$ 3,157,814	$ 3,899,466	$ 3,824,477	$ 7,316,071	$ 6,982,291

Long-term debt The State uses general obligation debt to finance capital projects. At the end of the current fiscal year, the State had total general obligation bond debt outstanding of $1,497.4 million backed by the full faith and credit of the State. Its relatively large debt burden reflects its centralized role in financing school construction projects that are typically funded by local governments or school districts in other states. As of June 30, 2010, $516.0 million, or 34.5%, of the State's outstanding debt was issued on behalf of local school districts. Local school districts transferred $58.1 million of property tax revenue to the State to cover related debt service during fiscal year 2010**.**

The State has no constitutional debt limits. However, in 1991, the State enacted legislation that limits debt issuance with a three-part test as follows:

- A 5% test restricts new debt authorization to 5% of budgetary general fund revenue as projected by DEFAC in June for the next fiscal year. Should actual revenue collections increase during the year, no additional authorizations are made. For fiscal year 2010, debt issuance was limited to $159.5 million.
- A 15% test restricts debt issuance if the annual payments on all outstanding debt exceed 15% of estimated budgetary general fund and Transportation Trust Fund Revenue for the next fiscal year. Currently, these annual payments represent between approximately 8% and 9% of estimated general fund and Transportation Trust Fund revenues.
- Finally, a cash balance test restricts debt issuance if the debt service payment in any year exceeds the estimated cumulative cash balance for the following fiscal year. For fiscal year 2010, the projected cash balance exceeded debt service.

Due to the State's statutory debt limits and its fiscal management, three principal rating agencies, Moody's Investor's Service, Fitch Ratings and Standard & Poor's, reaffirmed their triple-A ratings on the State's general obligation bonds during fiscal year 2010. In October 2009, the State issued $493.0 million fixed rate general obligation bonds including tax-exempt and taxable

Build America Bonds. In May 2010, the State issued $152.2 million of tax-exempt, fixed rate general obligation bonds. Both transactions included issuance to refund higher cost debt.

Debt issued by the Delaware Transportation Authority (the Authority) does not constitute a debt of the State or a pledge of its general taxing power or of its full faith and credit. Rather, the outstanding revenue bonds are obligations of the Authority payable solely from and secured by a pledge and assignment of certain tolls and revenues such as motor fuel tax revenues, motor vehicle document fees and motor vehicle registrations. The Authority has revenue bonds outstanding of $1,069.9 million to support its ongoing capital transportation program and $113.5 million in Grant Anticipation Vehicle Bonds (GARVEEs), to finance a portion of the costs of completing the final design and right-of-way acquisition for a new U.S. 301.

Additional information on the State of Delaware's long-term debt can be found in Notes 5, 6 and 7 on pages 72 - 90 of this report.

Other Post-Employment Benefits

The State provides post-employment health care to its employees and accounts for these benefits according to GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The State's actuarially accrued liability, based on a study conducted by Cheiron of McLean, Virginia, used actual data as of July 1, 2010 and has been determined to be about $5.9 billion using a discount rate of 5.0%. The State began pre-funding the obligation in 2002 with lump sum payments and contributions based on a percentage of payroll. For fiscal year 2010, the State has contributed $10 million in abandoned property revenue in excess of $374.0 million transferring those funds in late April. The State has established an irrevocable trust and has accumulated $104.4 million in net assets at June 30, 2010, which represents a funding ratio of less than 2%. The State's fiscal year 2010 annual required contribution (ARC) was $480.0 million, of which 36% was met through cash contributions and paid benefits. Its fiscal year 2011 ARC is expected to be $488.1 million of which 37.6% is expected to be met with cash contributions and paid benefits. The State expects to manage this obligation over time with continued contributions, savings initiatives and a review of benefits.

Economic Factors and Next Year's Budgets and Rates

DEFAC met on June 17, 2010, to prepare the final revenue and expenditure estimates upon which the fiscal year 2011 operating and capital budgets would be based. The Department of Finance estimated at that time that employment in the State had decreased by 3.3% during fiscal year 2010. In June 2010, the Department of Finance projected a modest rebound in fiscal year 2011 employment as the State, like the nation, gradually recovers from the worst recession since World War II.

The fiscal year 2011 operating and capital budgets meet budgetary spending limitations imposed by law. The fiscal year 2011 operating budget is $3,305.3 million, 6.9% less than fiscal year 2010. The fiscal year 2011 budget included $91.0 million in supplemental appropriations

(historically in the form of cash allocated to the capital budget). The fiscal year 2010 budget had no supplemental appropriations.

The primary objective of the State's Investment Policy is the safety of principal by minimizing credit risk and interest rate risk. While investment income has been less than expected the principal amount of the investment portfolio has not been compromised in the recent downturn.

Financial Management

The State's financial management continues to be recognized by a premier credit rating from all three principal rating agencies: Aaa from Moody's Investor's Service, AAA from Fitch Ratings and AAA from Standard & Poor's. The ratings reflect Delaware's financial management practices that have become institutionalized within the State:

- expenditure budgeting of 98% of available general fund revenue
- general fund revenue forecasts that are frequent, objective and often conservative
- three-part debt affordability test that limits debt authorization to 5% of general fund revenue and debt service to 15% of tax supported revenue
- consistent satisfaction of the State's budget reserve requirement – the State's rainy day fund has never fallen below its mandated 5% of general fund revenue
- full funding of its pension plan

These ratings were reaffirmed in October 2010.

Requests for Information

This financial report is designed to provide a general overview of the State's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Department of Finance, Division of Accounting, 820 Silver Lake Boulevard, Suite 200, Silver Lake Plaza, Dover, Delaware 19904 or visit our website at http://accounting.delaware.gov.

The State's component units publish their own separately issued audited financial statements. These statements may be obtained from their respective administrative offices or from the Office of Auditor of Accounts, Townsend Building, Suite 1, 401 Federal Street, Dover, Delaware 19901.

STATE OF DELAWARE
STATEMENT OF NET ASSETS
JUNE 30, 2010
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
ASSETS				
Current assets:				
Cash and cash equivalents	$ 323,353	$ 67,088	$ 390,441	$ 42,089
Cash and cash equivalents - restricted	-	2,540	2,540	25,910
Cash with fiscal agent	559	-	559	-
Investments	437,102	87,592	524,694	208,482
Investments - restricted	-	235,757	235,757	920
Accounts and other receivables, net	243,827	64,342	308,169	49,686
Loans and notes receivable, net	14,223	-	14,223	16,888
Internal balances	6,510	(6,510)	-	-
Other post-employment benefits asset	-	-	-	2
Inventories	7,989	16,006	23,995	694
Prepaid items	34,554	282	34,836	4,808
Other current assets	-	312	312	452
Total current assets	1,068,117	467,409	1,535,526	349,931
Noncurrent assets:				
Investments	1,076,848	10,158	1,087,006	106,986
Investments - restricted	-	50,865	50,865	18,461
Accounts and other receivables, net	37,503	-	37,503	7,432
Loans and notes receivable, net	219,365	-	219,365	927,128
Capital assets:				
Non-depreciable	1,083,993	3,709,438	4,793,431	166,747
Depreciable capital assets, net	2,332,612	190,030	2,522,642	427,283
Deferred bond issuance costs	4,218	-	4,218	11,407
Other restricted assets	-	-	-	15,035
Other noncurrent assets	-	4,350	4,350	2,923
Total noncurrent assets	4,754,539	3,964,841	8,719,380	1,683,402
Total assets	5,822,656	4,432,250	10,254,906	2,033,333
LIABILITIES				
Current liabilities:				
Accounts payable	451,647	49,376	501,023	9,168
Accrued liabilities	34,895	76,558	111,453	20,977
Interest payable	21,610	25,800	47,410	-
Unearned revenues	17,857	2,983	20,840	2,522
Compensated absences	13,158	4,336	17,494	25
Claims and judgments	32,338	-	32,338	-
Escheat liabilities	15,000	-	15,000	-
Escrow deposits	-	2,499	2,499	2
Notes payable	77	-	77	4,012
Current portion of pollution remediation obligations	5,492	2,022	7,514	-
Current portion of liabilities payable from restricted assets	-	3,242	3,242	-
Current portion of general obligation long-term debt, net of unamortized premium	149,724	663	150,387	-
Current portion of revenue bonds, net of unamortized premium	-	79,037	79,037	169,282
Other current liabilities	1,410	-	1,410	9,403
Total current liabilities	743,208	246,516	989,724	215,391
Noncurrent liabilities:				
Pension obligation	115,569	-	115,569	-
Other post-employment benefits payable	906,085	80,785	986,870	-
Compensated absences	149,287	9,824	159,111	7,310
Claims and judgments	97,569	3,178	100,747	-
Escheat liabilities	60,000	-	60,000	-
Escrow deposits	-	-	-	29,323
Notes payable	135	-	135	62,993
Pollution remediation obligations	17,915	773	18,688	-
Liabilities payable from restricted assets	-	3,359	3,359	-
General obligation long-term debt, net of unamortized premium	1,474,081	788	1,474,869	-
Revenue bonds, net of unamortized premium		1,140,493	1,140,493	921,911
Other long-term obligations	2,800	-	2,800	21,329
Total noncurrent liabilities	2,823,441	1,239,200	4,062,641	1,042,866
Total liabilities	3,566,649	1,485,716	5,052,365	1,258,257
NET ASSETS				
Invested in capital assets, net of related debt	1,796,438	2,803,634	4,600,072	393,831
Restricted for:				
Debt service	-	161,999	161,999	-
Highways and streets	-	-	-	-
Budgetary reserve	186,430	-	186,430	-
Unemployment benefits	-	(24,168)	(24,168)	-
Federal and state regulations	-	-	-	245,150
Bond covenants	-	-	-	37,431
Capital projects	-	-	-	36,976
Other purposes	-	-	-	11,007
Unrestricted	273,139	5,069	278,208	50,681
Total net assets	$ 2,256,007	$ 2,946,534	$ 5,202,541	$ 775,076

STATE OF DELAWARE
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

		Program Revenues		
Function	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary government:				
Governmental activities:				
General government	$ 436,025	$ 149,299	$ 16,465	$ -
Health and children's services	2,059,215	121,855	1,052,068	-
Judicial and public safety	624,565	60,024	50,672	-
Natural resources and environmental control	148,776	58,925	41,451	30,861
Labor	74,163	-	44,617	-
Education	2,146,258	63,099	255,630	-
Interest	55,782	-	-	-
Total governmental activities	5,544,784	453,202	1,460,903	30,861
Business-type activities:				
Lottery	353,449	689,652	-	-
DelDOT	626,012	426,924	-	238,276
Unemployment	379,065	119,473	196,889	-
Total business-type activities	1,358,526	1,236,049	196,889	238,276
Total primary government	6,903,310	1,689,251	1,657,792	269,137
Component units:				
Delaware State Housing Authority	139,708	61,430	83,621	1,370
Diamond State Port Corporation	30,762	28,203	-	2,614
Riverfront Development Corporation	15,431	1,866	362	3,140
Delaware State University	106,039	42,192	28,940	2,293
Delaware Technical & Community College Educational Foundation	758	637	852	-
Delaware Charter Schools	95,908	13,462	9,933	20
Total component units	388,606	147,790	123,708	9,437

General revenues:
Taxes:
Personal income
Business
Real estate
Other
Unrestricted payments from primary government
Investment income (loss)
Gain (loss) on disposal of assets
Miscellaneous
Transfers in (out)
Total general revenues and transfers

Change in net assets

Net assets - beginning of year
Net assets - end of year

See Accompanying Notes to Financial Statements

Net (Expenses) Revenue and Changes in Net Assets

Primary Government			
Governmental Activities	**Business-Type Activities**	**Total**	**Component Units**
$ (270,261)		$ (270,261)	
(885,292)		(885,292)	
(513,869)		(513,869)	
(17,539)		(17,539)	
(29,546)		(29,546)	
(1,827,529)		(1,827,529)	
(55,782)		(55,782)	
(3,599,818)		(3,599,818)	
	$ 336,203	336,203	
	39,188	39,188	
	(62,703)	(62,703)	
	312,688	312,688	
			$ 6,713
			55
			(10,063)
			(32,614)
			731
			(72,493)
			(107,671)
760,617	-	760,617	-
1,820,023	-	1,820,023	-
434,718	-	434,718	-
250,630	-	250,630	-
-	-	-	105,819
20,185	(15,336)	4,849	7,998
-	(415)	(415)	-
15,546	(1,000)	14,546	75
335,880	(335,880)	-	-
3,637,599	(352,631)	3,284,968	113,892
37,781	(39,943)	(2,162)	6,221
2,218,226	2,986,477	5,204,703	768,855
$ 2,256,007	$ 2,946,534	$ 5,202,541	$ 775,076

STATE OF DELAWARE
COMBINED BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010
(Expressed in Thousands)

	General	Federal	Local School District	Capital Projects	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 314,009	$ 666	$ 8,678	$ -	$ 323,353
Investments	1,196,335	-	317,615	-	1,513,950
Accounts receivable, net	69,495	10,305	577	-	80,377
Taxes receivable, net	71,450	-	29,102	-	100,552
Intergovernmental receivables, net	2,641	97,760	-	-	100,401
Loans and notes receivable	167,478	66,110	-	-	233,588
Due from other funds	57,866	-	-	-	57,866
Inventories	7,983	-	-	6	7,989
Total assets	1,887,257	174,841	355,972	6	2,418,076
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	351,108	67,885	17,161	15,493	451,647
Accrued liabilities	34,895	-	-	-	34,895
Claims and judgments	1,410	-	-	-	1,410
Escheat liability	75,000	-	-	-	75,000
Due to other funds	-	30,546	2,665	18,145	51,356
Deferred revenues	228,477	124,815	27,779	-	381,071
Total liabilities	690,890	223,246	47,605	33,638	995,379
Fund balances (deficit)					
Reserved for:					
Encumbrances	118,947	-	12,227	-	131,174
Reserve for long-term portion of loans and notes receivable	39,372	-	-	-	39,372
Inventories	7,983	-	-	6	7,989
Budgetary reserve	186,430	-	-	-	186,430
Unreserved (deficit)	843,635	(48,405)	296,140	(33,638)	1,057,732
Total fund balances	1,196,367	(48,405)	308,367	(33,632)	1,422,697
Total liabilities and fund balances	$ 1,887,257	$ 174,841	$ 355,972	$ 6	$ 2,418,076

STATE OF DELAWARE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2010
(Expressed in Thousands)

Total Fund Balances - Governmental Funds		$ 1,422,697
Amounts reported for governmental activities in the statement of net assets are different because:		
Net capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:		
Land	$ 427,496	
Land improvements	79,332	
Buildings	2,215,317	
Easements	256,653	
Equipment and vehicles	37,963	
Construction in progress	399,844	
		3,416,605
Some of the State's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds.		363,214
Some liabilities net of related assets are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:		
Interest payable	$ (21,610)	
Claims and judgments (current and long-term)	(129,907)	
Compensated absences (current and long-term)	(162,445)	
Other post employment benefits	(906,085)	
Pollution remediation obligations (current and long-term)	(23,407)	
Pension obligation	(115,569)	
General obligation long-term debt and related accounts	(1,584,474)	
Notes payable (current and long-term)	(212)	
Other long-term obligations	(2,800)	
		(2,946,509)
Net assets of governmental activities		$ 2,256,007

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICITS)
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	General	Federal	Local School District	Capital Projects	Total Governmental Funds
Revenues					
Personal taxes	$ 743,774	$ -	$ -	$ -	$ 743,774
Business taxes	1,820,023	-	-	-	1,820,023
Other tax revenue	250,630	-	434,718	-	685,348
Licenses, fees, permits and fines	390,386	338	1,664	-	392,388
Rentals and sales	24,511	1	14,103	-	38,615
Federal government	36,352	1,405,710	660	-	1,442,722
Interest and other investment income	15,346	127	4,712	-	20,185
Other	176,778	-	37,939	1,234	215,951
Total revenues	3,457,800	1,406,176	493,796	1,234	5,359,006
Expenditures					
Current:					
General government	458,449	13,066	-	-	471,515
Health and children's services	1,025,328	1,033,831	-	-	2,059,159
Judicial and public safety	522,505	56,272	-	-	578,777
Natural resources and environmental control	114,353	41,915	-	-	156,268
Labor	33,407	40,515	-	-	73,922
Education	1,241,254	280,720	364,379		1,886,353
Unrestricted payments to component unit - Education	92,156	-	13,663	-	105,819
Capital outlay	-	-	-	241,050	241,050
Debt service:					
Principal	155,789	-	-	-	155,789
Interest and other charges	66,222	-	-	-	66,222
Advance Refunding Escrow	35,189	-	-	-	35,189
Costs of issuance of debt	-	-	-	3,797	3,797
Total expenditures	3,744,652	1,466,319	378,042	244,847	5,833,860
Excess (deficiency) of of revenues over expenditures	(286,852)	(60,143)	115,754	(243,613)	(474,854)
Other Sources (Uses) of Financial Resources					
Transfers in	914,041	-	56,174	-	970,215
Transfers out	(26,422)	(21,220)	(90,924)	(495,769)	(634,335)
Issuance of general obligation bonds	-	-	-	645,130	645,130
Premiums on bond sales	-	-	-	66,054	66,054
Payment to Bond Refunding Agent	(460,580)	-	-	-	(460,580)
Total other sources (uses) of financial resources	427,039	(21,220)	(34,750)	215,415	586,484
Net change in fund balances	140,187	(81,363)	81,004	(28,198)	111,630
Fund balances - beginning	1,056,180	32,958	227,363	(5,434)	1,311,067
Fund balances - ending	$ 1,196,367	$ (48,405)	$ 308,367	$ (33,632)	$ 1,422,697

STATE OF DELAWARE
RECONCILIATION OF THE NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENT FUNDS TO CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

Net Changes in Fund Balances		$ 111,630
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlays	329,825	
Depreciation expense	(71,035)	
		258,790
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		42,813
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Components of the debt related adjustments consist of:		
Debt service principal repayments	$ 155,789	
Advanced refunding payments	35,189	
New debt issued (face value)	(184,550)	
Premium received	(66,054)	
Issuance costs	3,797	
Amortization of premium/issuance costs	5,631	
		(50,198)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore, the changes in these liabilities are not reported as expenditures in the governmental funds:		
Accrued interest expense		4,207
Claims and judgments		(9,547)
Compensated absences		(15,850)
Other post employment benefits		(297,591)
Pollution remediation obligation		(6,905)
Pension obligation		(2,917)
Notes payable		2,794
Other liabilities		555
Change in Net Assets of Governmental Activities		$ 37,781

See Accompanying Notes to Financial Statements

STATE OF DELAWARE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total
ASSETS				
Current assets:				
Cash and cash equivalents	$ 10,224	$ 16,038	$ 40,826	$ 67,088
Cash and cash equivalents - restricted	-	-	2,540	2,540
Investments	-	-	87,592	87,592
Investments - restricted	-	950	234,807	235,757
Accounts receivable, net	7,493	6,215	11,287	24,995
Taxes receivable, net	20,837	-	-	20,837
Intergovernmental receivables, net	2,795	-	15,227	18,022
Current portion of interest receivable	-	-	488	488
Inventories	-	-	16,006	16,006
Escrow insurance deposits	-	-	312	312
Prepaid items	-	-	282	282
Total current assets	41,349	23,203	409,367	473,919
Noncurrent assets:				
Investments	-	-	10,158	10,158
Investments - restricted	-	1,067	49,798	50,865
Other assets	-	2,292	-	2,292
Prepaid pension	-	-	2,058	2,058
Capital assets, non-depreciable	-	-	3,709,438	3,709,438
Capital assets, depreciable, net	-	2	190,028	190,030
Total noncurrent assets	-	3,361	3,961,480	3,964,841
Total assets	41,349	26,564	4,370,847	4,438,760
LIABILITIES				
Current liabilities:				
Accounts payable	-	10,062	35,643	45,705
Accrued liabilities	61,846	-	10,166	72,012
Interest payable	-	-	25,800	25,800
Deferred revenue	-	-	2,983	2,983
Compensated absences	-	-	4,336	4,336
Prizes liability	-	4,546	-	4,546
Escrow deposits	-	-	2,499	2,499
Pollution remediation obligations	-	-	2,022	2,022
Current portion of liabilities payable from restricted assets	-	-	3,242	3,242
Current portion of general obligation long-term debt	-	-	663	663
Current portion of revenue bonds, net of unamortized premium	-	-	79,037	79,037
Tax refunds payable	3,671	-	-	3,671
Due to other funds	-	6,510	-	6,510
Total current liabilities	65,517	21,118	166,391	253,026
Noncurrent liabilities:				
Other post-employment benefits payable	-	1,087	79,698	80,785
Compensated absences	-	-	9,824	9,824
Claims and judgments	-	-	3,178	3,178
Pollution remediation obligations	-	-	773	773
Liabilities payable from restricted assets	-	3,359	-	3,359
General obligation long-term debt	-	-	788	788
Revenue bonds, net of unamortized premium	-	-	1,140,493	1,140,493
Total noncurrent liabilities	-	4,446	1,234,754	1,239,200
Total liabilities	65,517	25,564	1,401,145	1,492,226
Net assets:				
Invested in capital assets, net of related debt	-	2	2,803,632	2,803,634
Restricted for:				
Debt service	-	-	161,999	161,999
Unemployment benefits	(24,168)	-	-	(24,168)
Unrestricted	-	998	4,071	5,069
Total net assets	$ (24,168)	$ 1,000	$ 2,969,702	$ 2,946,534

STATE OF DELAWARE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total
Operating revenues:				
Unemployment taxes-state funded	$ 92,029	$ -	$ -	$ 92,029
Unemployment taxes-federal funded	196,889	-	-	196,889
Gaming revenue	-	689,652	-	689,652
Pledged revenues:				
Turnpike revenue	-	-	119,399	119,399
Motor vehicle and related revenue	-	-	241,433	241,433
Turnpike revenue	-	-	45,502	45,502
Passenger fares	-	-	13,474	13,474
Miscellaneous	27,444	-	7,116	34,560
Total operating revenues	316,362	689,652	426,924	1,432,938
Operating expenses:				
Unemployment benefits-state funded	167,660	-	-	167,660
Unemployment benefits-federal funded	211,405			211,405
Cost of sales	-	271,325	-	271,325
Prizes	-	72,537	-	72,537
Transportation	-	-	552,410	552,410
Depreciation	-	2	23,052	23,054
General and administrative	-	9,585	6,629	16,214
Total operating expenses	379,065	353,449	582,091	1,314,605
Operating income (loss)	(62,703)	336,203	(155,167)	118,333
Nonoperating revenues (expenses):				
Investment income	1,978	-	2,983	4,961
Interest expense	-	-	(43,921)	(43,921)
Loss on Note Receivable	-	-	(20,297)	(20,297)
Contributions to Thoroughbred Program	-	(1,000)	-	(1,000)
Loss on disposal of assets	-	-	(415)	(415)
Total nonoperating revenues (expenses)	1,978	(1,000)	(61,650)	(60,672)
Income (loss) before transfers and capital contributions	(60,725)	335,203	(216,817)	57,661
Capital contributions	-	-	238,276	238,276
Transfers in	-	-	3,112	3,112
Transfers out	-	(334,609)	(4,383)	(338,992)
Increase (decrease) in net assets	(60,725)	594	20,188	(39,943)
Net assets - beginning of year	36,557	406	2,949,514	2,986,477
Net assets - end of year	$ (24,168)	$ 1,000	$ 2,969,702	$ 2,946,534

STATE OF DELAWARE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total
Cash flows from operating activities:				
Receipts from employers	$ 92,760	$ -	$ -	$ 92,760
Receipts from federal government	208,102	-	-	208,102
Payments for insurance claims	(395,961)	-	(5,086)	(401,047)
Receipts from customers and users	-	694,061	427,369	1,121,430
Other operating receipts	27,444	-	1,862	29,306
Payments to suppliers for goods and services	-	(46,454)	(413,427)	(459,881)
Payments to employees for services	-	(1,870)	(120,497)	(122,367)
Payments for prizes	-	(73,967)	-	(73,967)
Payment for commissions	-	(226,101)	-	(226,101)
Net cash provided (used) by operating activities	(67,655)	345,669	(109,779)	168,235
Cash flows from noncapital financing activities:				
Transfers in	-	-	3,112	3,112
Transfers out	-	(335,609)	(4,383)	(339,992)
Net cash used by noncapital financing activities	-	(335,609)	(1,271)	(336,880)
Cash flows from capital and related financing activities:				
Capital grants	-	-	248,404	248,404
Purchases of capital assets	-	-	(99,277)	(99,277)
Principal paid on capital debt	-	-	(75,036)	(75,036)
Interest paid on capital debt	-	-	(50,972)	(50,972)
Proceeds from sale of land and equipment	-	-	821	821
Proceeds from issuance of debt	-	-	113,490	113,490
Premium from bond sale	-	-	11,529	11,529
Net cash used by capital and related financing activities	-	-	148,959	148,959
Cash flows from investing activities:				
Interest and investment revenues	1,978	-	2,700	4,678
Repayment on loan receivable	-	-	1,295	1,295
Escrow deposits received	-	-	674	674
Purchase of investments	-	-	3,573,708	3,573,708
Proceeds from sales and maturities of investments	-	1,269	(3,622,351)	(3,621,082)
Net cash provided by investing activities	1,978	1,269	(43,974)	(40,727)
Net increase (decrease) in cash and cash equivalents	(65,677)	11,329	(6,065)	(60,413)
Cash and cash equivalents - beginning of year	75,901	4,709	49,431	130,041
Cash and cash equivalents - end of year	10,224	16,038	43,366	69,628
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	(62,703)	336,203	(155,167)	118,333
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	-	2	23,052	23,054
Decrease (increase) in assets:				
Receivables, net	(1,188)	4,409	2,307	5,528
Inventories	-	-	(1,196)	(1,196)
Prepaid items	-	-	(416)	(416)
Increase (decrease) in liabilities:				
Accounts and other payables	941	6,484	(2,947)	4,478
Accrued liabilities	(15,918)	2	(71)	(15,987)
Accrued expenses	-	(1,431)	(1,590)	(3,021)
Accrued payroll and related expenses	-	-	(72)	(72)
Post-employment benefits	-	-	26,321	26,321
Due to/from federal government	11,213	-	-	11,213
Net cash provided (used) by operating activities	(67,655)	345,669	(109,779)	168,235

See Accompanying Notes to Financial Statements

STATE OF DELAWARE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2010
(Expressed in Thousands)

	Pension Trust	OPEB Trust	Investment Trust	Agency
Assets:				
Cash and cash equivalents	$ 283,015	$ 12,482	$ 4,520	$ 23,486
Receivables:				
Accrued interest	17,929	-	88	-
Investment sales pending	65,365	-	322	-
Employer contributions	11,942	9,207	-	-
Member contributions	3,981	43	-	-
Other receivables	-	-	-	38,372
Investments, at fair value:				
Domestic fixed income	519,224	42,154	13,132	-
Domestic equities	950,884	33,589	13,098	-
Pooled equity and fixed income	1,890,325	-	9,276	-
Alternative investments	1,622,262	-	7,961	-
Short term investments	-	-	-	22,811
Foreign fixed income	135,687	-	665	-
Foreign equities	899,331	17,463	8,797	-
Total assets	6,399,945	114,938	57,859	84,669
Liabilities:				
Accounts payable	-	-	-	84,669
Investment purchase payable	52,900	10,570	260	-
Benefits/claims payable	1,404	-	-	-
Accrued investment expense	3,783	4	20	-
Accrued administrative expenses	304	-	-	-
Total liabilities	58,391	10,574	280	84,669
Net assets:				
Assets held in trust for pension benefits and pool participants	$ 6,341,554	$ 104,364	$ 57,579	$ -

See Accompanying Notes to Financial Statements

STATE OF DELAWARE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Pension Trust	OPEB Trust	Investment Trust
Additions:			
Contributions:			
Employer contributions	$ 167,607	$ 171,498	$ -
Transfer from post-retirement increase fund	26,457	-	-
Transfer of assets from outside the system	2,901	-	43
Member contributions	53,129	5,640	-
Other	38	-	-
Total contributions	250,132	177,138	43
Investments:			
Investment earnings	99,937	2,370	1,240
Net increase in fair value of investments	727,023	6,301	5,785
Total investment earnings	826,960	8,671	7,025
Less investment manager/advisor/custody fees	(18,383)	(46)	(102)
Less investment administrative expenses	(563)	-	-
Net investment earnings	808,014	8,625	6,923
Total additions	1,058,146	185,763	6,966
Deductions:			
Transfer of assets from post-retirement increase fund	26,457	-	-
Transfer of assets from outside the system	10,331	-	1,156
Pension/claim payments	433,277	164,543	-
Refunds of contributions to members	3,486	-	-
Group life payments	4,930	-	-
Administrative expenses	5,724	103	-
Total deductions	484,205	164,646	1,156
Change in net assets	573,941	21,117	5,810
Net assets - beginning of year	5,767,613	83,247	51,769
Net assets - end of year	$ 6,341,554	$ 104,364	$ 57,579

See Accompanying Notes to Financial Statements

STATE OF DELAWARE
COMBINING STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2010
(Expressed in Thousands)

	Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	DTCC * Educational Foundation	Delaware Charter Schools	All Component Units Total
ASSETS							
Current assets:							
Cash and cash equivalents	$ 183	$ 1,070	$ 100	$ 13,230	$ 329	$ 27,177	$ 42,089
Cash and cash equivalents - restricted	-	14,889	170	10,705	-	146	25,910
Investments	198,468	-	-	-	9,951	63	208,482
Investments - restricted	-	-	-	920	-	-	920
Accounts and other receivables, net	32,483	2,175	211	14,689	-	128	49,686
Loans and notes receivable, net	15,857	-	1,031	-	-	-	16,888
Other post-employment benefits (OPEB) asset	2	-	-	-	-	-	2
Inventories	-	694	-	-	-	-	694
Prepaid items	3,390	566	50	-	-	38	4,044
Deferred bond issuance costs	764	-	-	-	-	-	764
Other restricted assets	-	-	-	-	95	-	95
Other current assets	-	-	-	337	-	20	357
Total current assets	251,147	19,394	1,562	39,881	10,375	27,572	349,931
Noncurrent assets:							
Long-term investments	106,930	-	-	-	56	-	106,986
Long-term investments - restricted	-	-	-	18,461	-	-	18,461
Accounts and other receivables, net	7,432	-	-	-	-	-	7,432
Loans and notes receivable, net	926,564	-	465	99	-	-	927,128
Capital assets - non-depreciable	4,567	36,385	103,619	16,976	-	5,200	166,747
Capital assets - depreciable, net	15,639	127,809	25,023	194,041	-	64,771	427,283
Deferred bond issuance costs	8,590	-	-	1,700	-	1,117	11,407
Other restricted assets	-	-	-	7,504	7,531	-	15,035
Other noncurrent assets	-	-	2,091	220	-	612	2,923
Total noncurrent assets	1,069,722	164,194	131,198	239,001	7,587	71,700	1,683,402
Total assets	1,320,869	183,588	132,760	278,882	17,962	99,272	2,033,333
LIABILITIES							
Current liabilities:							
Accounts payable	1,054	211	748	6,315	29	811	9,168
Accrued liabilities	88	2,835	69	10,206	-	7,779	20,977
Deferred revenue	-	11	66	2,444	-	1	2,522
Compensated absences	25	-	-	-	-	-	25
Escrow deposits	-	-	2	-	-	-	2
Notes payable	975	1,507	650	-	-	880	4,012
Current portion of revenue bonds	168,457	-	360	-	-	465	169,282
Current portion of other long-term debt	-	-	4,945	1,845	-	1,979	8,769
Other current liabilities	301	-	-	146	2	185	634
Total current liabilities	170,900	4,564	6,840	20,956	31	12,100	215,391
Noncurrent liabilities:							
Compensated absences	951	-	-	5,399	-	960	7,310
Escrow deposits	29,323	-	-	-	-	-	29,323
Notes payable	128	30,885	-	-	-	31,980	62,993
Revenue bonds	795,814	-	3,265	104,187	-	18,645	921,911
Long-term debt	-	-	9,090	785	-	9,098	18,973
Other noncurrent liabilities	953	-	-	950	66	387	2,356
Total noncurrent liabilities	827,169	30,885	12,355	111,321	66	61,070	1,042,866
Total liabilities	998,069	35,449	19,195	132,277	97	73,170	1,258,257
NET ASSETS							
Invested in capital assets, net of related debt	20,206	131,803	110,982	120,221	-	10,619	393,831
Restricted for:							
Federal and state regulations	234,448	-	-	425	10,277	-	245,150
Bond covenants	36,643	-	-	788	-	-	37,431
Capital projects	3,465	14,889	-	4,915	-	13,707	36,976
Other purposes	-	-	-	10,884	-	123	11,007
Unrestricted	28,038	1,447	2,583	9,372	7,588	1,653	50,681
Total net assets	$ 322,800	$ 148,139	$ 113,565	$ 146,605	$ 17,865	$ 26,102	$ 775,076

* Fiscal year-end December 31, 2009

STATE OF DELAWARE
COMBINING STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

		Program Revenues		
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Component units:				
Delaware State Housing Authority	$ 139,708	$ 61,430	$ 83,621	$ 1,370
Diamond State Port Corporation	30,762	28,203	-	2,614
Riverfront Development Corporation	15,431	1,866	362	3,140
Delaware State University	106,039	42,192	28,940	2,293
Delaware Technical and Community College (DTCC) Educational Foundation	758	637	852	-
Delaware Charter Schools	95,908	13,462	9,933	20
Total component units	$ 388,606	$ 147,790	$ 123,708	$ 9,437

General revenues:

Unrestricted payments from primary government
Investment income (loss)
Gain (loss) on disposal of assets
Miscellaneous

Total general revenues

Change in net assets

Net assets - beginning of year (as restated)

Net assets - end of year

* Fiscal year ended December 31, 2009

Net (Expense) Revenue and Changes in Net Assets						
Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	DTCC * Educational Foundation	Delaware Charter Schools	Totals
$ 6,713						$ 6,713
	$ 55					55
		$ (10,063)				(10,063)
			$ (32,614)			(32,614)
				$ 731		731
					$ (72,493)	(72,493)
						(107,671)
-	-	-	33,579	-	72,240	105,819
6,101	(1,128)	111	794	1,827	293	7,998
-	-	-	-	-	-	-
-	116	-	(657)	-	616	75
6,101	(1,012)	111	33,716	1,827	73,149	113,892
12,814	(957)	(9,952)	1,102	2,558	656	6,221
309,986	149,096	123,517	145,503	15,307	25,446	768,855
$ 322,800	$ 148,139	$ 113,565	$ 146,605	$ 17,865	$ 26,102	$ 775,076

See Accompanying Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Delaware (the State) have been prepared in conformity with Accounting Principles Generally Accepted in the United States (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

(a) Reporting Entity

The accompanying financial statements present the State's primary government and include all funds, elected officials, departments and organizations, bureaus, boards, commissions, and authorities that comprise the State's legal entity. The State's 19 local school districts are fiscally dependent and not legally separate from the State. As per the interpretation of Article X, Section 2 of the State's Constitution, the local school districts are included in the reporting entity of the primary government. The DelDOT enterprise fund, which includes the Transportation Trust Fund and the Delaware Transit Corporation, is also included in the reporting entity of the primary government. Fiduciary funds, although legally separate entities, are in substance part of the State's operations. The State's reporting entity is also comprised of its component units, entities for which the State is considered to be financially accountable. Discretely presented component units are reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that such are legally separate from the State.

Financial accountability is defined in GASB Statement No. 14, *The Financial Reporting Entity,* as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units.* The State is financially accountable for legally separate organizations if it appoints a voting majority of the organization's board and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State. The State may also be financially accountable if an organization is fiscally dependent on the State, regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

Blended Component Units

The Delaware Public Employees' Retirement System (DPERS) is a public employee retirement system, which covers substantially all State employees. The DPERS is a legally separate entity; however, as it provides services and benefits almost exclusively to the primary government, the DPERS is considered a blended component unit and is shown in the financial statements as part of the primary government as a pension trust fund. The financial report of DPERS for the year ended June 30, 2010 may be obtained in writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

The Delaware OPEB Fund Trust (OPEB Trust) is a trust, which provides retirement medical coverage to pensioners and their eligible dependents in the State's Employees', Judiciary, New State Police, and Closed State Police Pension Plans. The OPEB Trust is a legally

separate entity; however, it provides services and benefits almost exclusively to the primary government. The OPEB Trust is considered a blended component unit and is shown in the financial statements as part of the primary government as an OPEB trust fund.

Discretely Presented Component Units

The following component units are entities that are legally separate from the State, but are financially accountable to the State for reporting purposes or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The component unit's column of the basic financial statements includes the financial data of these entities. Except for the Delaware Technical and Community College Educational Foundation, which has a fiscal year-end of December 31, 2009, each discretely presented component unit has a June 30, 2010 fiscal year-end.

Delaware State Housing Authority

The Delaware State Housing Authority (DSHA) is a public corporation whose Director is appointed by and reports directly to the Governor of the State. The DSHA administers the role of providing affordable housing as a key aspect of State policy. The DSHA's relationship with the State is such that exclusion of the DSHA from the State's basic financial statements would cause the statements to be misleading or incomplete. The DSHA is authorized, among other things, to (1) make mortgage, construction and other loans to not-for-profit and limited for-profit housing sponsors; (2) make loans to mortgage lenders, requiring the proceeds thereof to be used for making newly qualified residential mortgage loans; (3) purchase qualified mortgage loans from mortgage lenders; and (4) apply for and receive assistance and subsidies under programs from the federal government and others.

Diamond State Port Corporation

The Diamond State Port Corporation (DSPC) was organized as a body corporate and politic constituting a public instrumentality of the State. The DSPC is empowered to operate, improve and maintain the Port of Wilmington and related facilities. The Governor appoints 8 of the 15 members of the board of directors, with the advice and consent of the Senate. The DSPC's relationship with the State is such that exclusion of the DSPC from the State's basic financial statements would cause the statements to be misleading or incomplete.

Riverfront Development Corporation

The Riverfront Development Corporation (RDC) was formed to plan, develop and manage programs and projects intended to foster economic development along the Brandywine and Christina Rivers. The Governor appoints seven of the 18 board members; however, seven of the remaining 11 directors consist of the Governor and six State officials. Authorization by the State's Budget Director and Controller General is required before funds of the RDC may be expended.

Delaware State University

Delaware State University (DSU) is a public institution of higher education. Funding is primarily through State appropriations. State appropriations without restrictions as to use by the University are reported in general revenue. Additional funding is derived from tuition, federal grants, private donations and grants. The Board of Trustees is comprised of 15 members, eight appointed by the Governor of Delaware and seven elected by the Trustees. The President of the University and the Governor of the State of Delaware serve as ex-officio members of the Board. Delaware State University financial data includes its two component units, the Delaware State University Housing Foundation and the Delaware State University Foundation, Inc.

Delaware Technical and Community College Educational Foundation

The Delaware Technical and Community College Educational Foundation (the Foundation) is a fiduciary-type component unit of Delaware Technical and Community College (DTCC), which is part of the primary government. The Foundation was established on November 13, 1968 by a trust agreement. On April 20, 1999, the Foundation revised the trust document incorporating all previous amendments to the previous trust document. The trust agreement stipulates that the activities of the Foundation be limited to such educational purposes that come under Section 501(c) (3) of the Internal Revenue Code. Activities include, but are not limited to, making contributions, gifts or grants, or otherwise rendering financial aid and assistance by direct payments to DTCC and providing financial assistance to qualified students. The Foundation has a fiscal year-end of December 31, 2009.

Delaware Charter Schools

The State's 21 Charter Schools are public schools funded primarily through State appropriations. Additional funding is derived from federal grants passed through from the primary government, private donations and funds received from local school districts on a tax portion per child basis. Charter schools are each managed by a board of directors, which operate independently, under a charter granted by the State Department of Education with the approval of the State Board of Education. Charters are granted for an initial period of three years and renewable every five years thereafter. Financial information for Delaware Charter Schools is presented in the aggregate as they are individually immaterial.

Complete financial statements for each of the discretely presented component units may be obtained from their respective administrative offices.

Related Organizations

Officials of the State's primary government appoint a voting majority of the governing board of the Delaware Solid Waste Authority (DSWA). The primary government's accountability for DSWA does not extend beyond making the appointments. The financial activities of DSWA are not included in the State's financial statements.

The Governor appoints eight members of the governing board of the University of Delaware (the University). The remaining 20 members are elected separately. The primary government's accountability does not extend beyond State grants to the University. The financial activities of the University are not included in the State's financial statements.

Jointly Governed Organization

The Delaware River and Bay Authority (DRBA), a body politic, was created with the intention of advancing the economic growth and development of those areas in the State of Delaware and the State of New Jersey, which border the Delaware River and Delaware Bay. DRBA is governed by 12 commissioners: six appointed by the State of Delaware and six appointed by the State of New Jersey. DRBA is autonomous from a day-to-day operations perspective and neither State is obligated for the DRBA's debt. DRBA is not included in these financial statements as the State of Delaware has no ongoing financial interest.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is separately presented from certain legally separate component units for which the State is financially accountable.

The statement of net assets measures not just current assets and liabilities, but also long-term assets and liabilities such as capital assets (including infrastructure assets) and general long-term debt. The difference between the State's assets and its liabilities is its net assets. Net assets are displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. There are no net assets that are restricted by enabling legislation at June 30, 2010. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items properly excluded among program revenues are reported as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported in separate columns in the fund financial statements.

(b) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds reported as part of the fiduciary fund financial statements are custodial in nature and do not present results of operations and, therefore, do not have a measurement of focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the State's enterprise operations and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Intrafund transactions between the primary government and component units are reported as operating or capital grants as appropriate for restricted amounts. Unrestricted amounts are reported as general revenue.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers all revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally

are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Taxes, grants, fees, sales, rents, and interest income associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the State. Revenue related to expenditure driven grants is recognized when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental Funds

The State reports the following major governmental funds:

General Fund – The general fund is the State's primary operating fund. It accounts for all financial resources obtained and used for those services traditionally provided by a state government, which are not required to be accounted for in other funds. These services include, among others, education, and health and social services.

Federal Fund – The federal fund accounts for all activities relating to the State's federal grant programs.

Local School District Fund – The local school district fund is used to account for aggregate financial activity of the State's local school districts that is funded by locally-raised real estate taxes, interest, and minor miscellaneous revenue. The aggregate financial activity is funded from other sources, such as federal grant programs, major and minor capital project programs, and subsidized government programs are accounted for in the general fund, federal fund, and capital project fund.

Capital Projects Fund – Transactions related to resources obtained and used for the acquisition or construction of major capital facilities (other than those financed by proprietary and fiduciary funds), are accounted for in the capital projects fund. Such resources are derived principally from proceeds of general obligation bond issues, federal grants, and operating transfers from the general fund.

Proprietary Funds

Proprietary funds are used to account for those activities which are financed and operated in a manner similar to private business enterprises. The costs of providing services to the general public on a continuing basis are financed by or recovered primarily through user charges.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The

principal operating revenues of the unemployment fund are charges from employers for taxes against wages. The principal operating revenues of lottery fund and DelDOT fund are charges to customers for sales and services.

The Lottery fund recognizes revenue from online games the day of the drawing. Revenue from the sale of instant tickets is recognized when the book has been activated and 85% of the related prizes of an activated book are paid, 90 days from the date of activation, or when the next pack of the same game is activated. Revenue from video lottery sales is recognized, net of prizes paid, at the time the public plays the game.

Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. For the unemployment fund, expenses are payments of benefits to recipients. All expenses not meeting this definition are reported as non-operating expenses.

The State reports the following major proprietary funds:

DelDOT Fund – The DelDOT fund accounts for the activities relating to the operation of the State's Department of Transportation, including the Delaware Transportation Trust (Authority).

Unemployment Fund – The unemployment fund accounts for the activities relating to the State's Unemployment Insurance Trust Fund.

Lottery Fund – The lottery fund accounts for the activities relating to the Lottery program.

Fiduciary Funds

The fiduciary funds account for assets held by the State in a trustee capacity or as an agency for other individuals or organizations. The fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting.

The State reports the following fiduciary funds:

Agency Funds – Agency funds are custodial in nature and do not involve measurement of the results of operations. They account for the receipt of various taxes, deposits, deductions, and certain property collected by the State, acting in the capacity of an agent, and for the distribution to other governmental units or designated beneficiaries.

Pension Trust Funds – The Delaware Public Employees' Retirement System (DPERS) is a public employee retirement system, which covers substantially all State employees. The DPERS is a legally separate entity; however, as it provides services and benefits almost exclusively to the primary government, the DPERS is considered a fiduciary fund and is shown in the financial statements as part of the primary government as a pension trust fund. Pension trust funds account for transactions, assets, liabilities and net assets available for plan benefits (Note 15). For pension trust funds, employee contributions are recognized as

revenue in the period in which the employee services are performed. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The financial report of DPERS for the year ended June 30, 2010, may be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, DE 19904-2402.

Investment Trust Funds – Investment trust funds are used to account for external investment pools where a government commingles the monies of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio; one or more of the participants is not part of the sponsor's reporting entity. The investment trust fund accounts for the transactions, assets, liabilities and fund equity for the DPERS's external investment pool and for the Delaware Other Post Employment Benefit Trust Fund (OPEB) Investment Trust fund.

OPEB Trust Fund – The OPEB Trust is a trust administered by DPERS. In addition to providing pension benefits, the State is statutorily required to provide health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the State's employees may become eligible for these benefits if they reach normal retirement age while working for the State. Health care benefits are provided through plans whose premiums are based on the benefits paid during the year. The cost of providing post-retirement benefits is shared between the State and the retired employee. The State recognizes the cost of providing health insurance by recording its share of insurance premiums as an expenditure in the year paid.

New Accounting Pronouncements

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* - an amendment to GASB Statements No. 34 and 42. This Statement establishes a specific authoritative accounting and financial reporting requirements for intangible assets, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. Requirements of this Statement were implemented by the State for the fiscal year ended June 30, 2010. As a result of statement implementation, easements increased by $75.2 million and computer software in progress increased by $22.6 million.

In June 2009, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* - an amendment to GASB TB2003-1 and GASB Statements No. 7, 23, 25, 31, 40, and 43. This Statement establishes a framework for accounting and financial reporting related to derivative instruments, requiring the fair value of derivatives to be recognized in the financial statements. The primary government held no such investments on June 30, 2010. The DPERS derivative instruments have historically been, and continue to be, recognized in the financial statements at fair value. The fair value of the derivative

instruments held by DPERS is immaterial, and as such the disclosure provisions of the statement were not applied. There was no material impact of the implementation of GASB 53 on the financial statements as of and for the year ended June 30, 2010.

Impact of Future Accounting Pronouncements

In February 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The Statement requires governments to disclose information in the notes about the processes through which constraints are imposed, as well as accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to be spent. This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. Requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. The State is currently evaluating the future impact of this Statement.

(c) Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents. For the purposes of the statement of cash flows, restricted cash is considered to be a cash equivalent. Investment securities with maturities of greater than one year are reported as long-term investments.

Investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost. Investment securities with remaining maturities of greater than one year are identified as long-term investments.

The State presents its deposits and investments in accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures,* an amendment to GASB Statement No. 3, *Deposits with Financial Institutions*, *Investments (including repurchase agreements) and Reverse Repurchase Agreements*. This standard requires that state and local governments, including colleges and universities, disclose essential risk information about deposits and investments. The disclosure requirements cover four main areas; credit risk, interest rate and maturity, interest rate sensitivity and foreign exchange exposure.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due to/from other funds” (i.e., the

current portion of interfund loans). All trade and property tax receivables, including those for the component units, are shown net of an allowance for uncollectibles and refunds.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, and then unrestricted resources as they are needed. In the government-wide financial statements, restricted net assets represent balances that are subject to external restrictions or were created by enabling legislation.

The State has the following restricted assets:

- The Delaware State Lottery has a mandatory deposit with the Multi-State Lottery and annuities for future installment prize payments.
- The Authority restricts revenue bond proceeds that are accounted for in the Transportation Fund.

The component units have the following restricted assets:

- Riverfront Development Corporation has restricted assets to cover revenue bond payments and capital projects.
- Diamond State Port Corporation has restricted investments for capital project outlays.
- Delaware State University has restricted assets for capital project outlays, grants, and college endowment funds.
- Charter schools have restricted assets to cover debt service payments.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (which are normally immovable and of value only to the State, such as roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements, the proprietary funds and component units.

Capital assets are defined by the State as assets with estimated useful lives in excess of one year at the date of acquisition. Such assets are recorded at historical cost if purchased or constructed, or estimated historical cost if the original cost is not determinable. Donated capital assets are recorded at estimated fair market value at the date of donation.

All land and buildings are capitalized, regardless of cost. Equipment and vehicles are capitalized when the cost of individual items exceeds $25,000. Building and land improvements are capitalized when the cost of the project exceeds $100,000. Infrastructure and software are capitalized when the costs of individual items or projects exceed $1.0 million. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The State possesses certain capital assets that have not been capitalized and depreciated, because the assets cannot be reasonably valued and/or the assets have inexhaustible useful lives. These assets include works of art and historical treasures, such as statues, monuments, historical documents, paintings, forts, miscellaneous State capitol-related artifacts and furnishings. These assets are held for public exhibition, education or research in furtherance of public service rather than financial gain; they are protected, kept unencumbered, cared for and preserved; and they are subject to an organizational policy that requires the proceeds from sales of collection items to be used to acquire other items for collections.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

Asset	Primary Government Years	Component Unit Years
Buildings and Building Improvements	10 - 40	15 - 75
Land Improvements	20	N/A
Furniture and Equipment	3 - 12	3 - 40
Vehicles	7	N/A
Software	5	N/A

The State has elected to use the modified approach to account for certain infrastructure assets. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Utilization of this approach requires the State to: 1) commit to maintaining and preserving affected assets at or above a condition level established by the State, 2) maintain an inventory of the assets and perform periodic condition assessments to ensure that the condition level is being maintained, and 3) make annual estimates of the amounts that must be expended to maintain and preserve assets at the predetermined condition levels. Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

Compensated Absences

It is the State's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. In the governmental fund financial statements, liabilities for compensated

absences are accrued when they are considered "due and payable" and recorded in the fund only for separations or transfers that occur before year-end. In the government-wide and proprietary fund financial statements, the State has accrued a liability for compensated absences, recognizing the obligation to make future payments.

Long-Term Obligations

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose.

The State Constitution provides that certain excess unencumbered budgetary general funds at the end of a fiscal year must be placed in a reserve account (the Budgetary Reserve Account). This account, designed to provide a cushion against unanticipated deficits, may not exceed 5% of the estimated general fund revenue for the ensuing fiscal year. Total funding of the budgetary reserve account was $186.4 million at June 30, 2010. In the government-wide financial statements, restricted net assets represent balances that are subject to external restrictions or were created by enabling legislation. Per the Delaware Constitution, the General Assembly, by three-fifths vote of the members elected to each House, may appropriate from the budgetary reserve account. Should the State attempt to use this reserve for other purposes, such could be challenged by citizens.

(d) Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables when entitlement occurs. All other federal reimbursement type grants are recorded as accounts receivable when the related expenditures or expenses are recognized. Related revenue is recorded subject to availability. Amounts not collected within 60 days of fiscal year-end are recorded as deferred revenue. In addition to monetary

transactions, federal grants also include non-monetary transactions related to the supplemental nutrition assistance program.

(e) Litigation Revenue

In 1997, several states began litigation against defendant tobacco product manufacturers to recover certain amounts the states expended to provide health care to the users of tobacco products. In 1998, a settlement was reached which provided that the states cease litigation against the manufacturers. As part of the Master Settlement Agreement, certain manufacturers agreed to remit periodic payments to the states until 2025. The State's share of the estimated $200 billion settlement amounted to $774.5 million. Amounts to be remitted are calculated based on a variety of specific settlement provisions. Future tobacco product sales are one key factor used in determining periodic payment amounts. A receivable of $13.4 million has been recorded pursuant to the settlement. The Master Settlement agreement receipts of $28.0 million are recorded in the general fund as part of other revenue and as miscellaneous general revenue on the government-wide statement of activities. Expenditures of monies received under the Master Settlement Agreement are authorized by legislation and are dedicated to health care and related programs.

NOTE 2 CASH, INVESTMENTS AND RESTRICTED ASSETS

Cash Management Policy and Investment Guidelines

The State Treasurer maintains the majority of the deposits and investments of the primary government and uses professional money managers to invest the State's deposits according to guidelines set in the *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* (the Policy) by the State's Cash Management Policy Board (the Board).

The Board, created by State law, establishes policies for, and the terms, conditions, and other matters relating to, the investment of all money belonging to the State except money in DPERS and the OPEB Trust and money held under the State deferred compensation program. By law, all deposits and investments belonging to the State are under the control of the State Treasurer except for those that, by specific authority, are under the control of other agencies or component units, as determined by the Board in various pooled investment funds (State Investment Pool). The deposit and investment policies of those entities may differ from those of the State Treasurer. Typically, these agencies follow the deposit and investment policies of the State Treasurer in an effort to minimize deposit and investment risks.

As mandated by State statutes, the State's funds shall be invested pursuant to the prudent person standard as defined in the Policy. The prudent person standard allows the Board to establish investment policies based on investment criteria that it defines, and it allows the Board to delegate investment authority to investment professionals. This standard of care not only permits but also encourages diversifying investments across various asset classes.

The objectives and guidelines, as outlined in the Policy, apply to all cash and special purpose funds for which the State is financially accountable. These funds are categorized as outlined below:

- Cash Accounts. Cash accounts divide the State's available cash into three parts:

    - Collection and Disbursement Accounts: The State maintains an amount of cash in its general collection and disbursement accounts sufficient to meet its outstanding obligations.
    - Cash and Liquidity Accounts: The majority of the State's cash balance available for investment is maintained in the cash and liquidity accounts. These accounts are managed and invested by investment managers, selected by the Board through competitive bid, in order to maximize the return to the State while, at the same time, providing for safety of principal and sufficient liquidity for the State to meet its cash needs. The State manages its short-term investments to ensure sufficient liquidity and prevent their premature sale for the purpose of covering expenditures. Short-term investments should mature at face value in sufficient amounts to meet any needs.
    - Reserve Cash (Intermediate) Account: To the extent cash is not expected to be needed on short notice, the Board directs the funding of a third part. This account is managed and invested by an investment manager or managers, selected by the Board after a competitive bid, in order to maximize the return on said money to the State while providing for the safety of principal. The State manages its intermediate investments to ensure they are made under circumstances and in amounts in which the State would not be forced to liquidate them at a loss.

- Special Purpose Accounts. There are two primary types of special purpose accounts:

    - Endowment Accounts: Endowment accounts consist of funds set-aside for specified purposes.
    - Authority Accounts: The State's Authorities (state agencies, local school districts and component units) maintain a variety of fund types, including various operating funds, bond funds and debt service reserve funds.

The Policy specifies the types of investments the investment managers can make; the maximum percentage of assets that may be invested in particular instruments; the minimum credit quality of these investments; and the maximum length of time the assets can be invested. The Policy provides, among other things, that no more than 10% of the entire portfolio may be invested in obligations of any one issuer other than the U.S. Government. The following investments are permissible for all funds under the review of the Board, subject to percentage limitations of the account.

- U.S. government securities
- Government agency securities
- Certificates of deposit, time deposits, and bankers acceptances

- Corporate debt instruments
- Repurchase agreements
- Reverse repurchase agreements
- Money market funds
- Canadian treasury bills
- Canadian agency securities
- Mortgage-backed and asset-backed securities
- Municipal obligations

Additional permissible investments for special purpose accounts only:

- Guaranteed investment contracts
- Asset-backed securities and trust certificates

The primary government's accounts are categorized as "authority accounts". At June 30, 2010, investments of the primary government are primarily in commercial paper, corporate obligations, government agency bonds and notes, and municipal obligations. All of these meet the objectives defined by the Policy.

The State's Cash Management Policy Board *Statement of Objectives and Guidelines for the Investment of State of Delaware Funds* is available on the Internet at http://treasurer.delaware.gov/information/cash_investment.shtml.

Risks

The following deposits and investments disclosure of the primary government excludes the OPEB Trust and DPERS, which are described on pages 59 - 64.

Custodial Credit Risk

Deposits

For deposits, custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the deposits or collateral securities may not be recovered from an outside party.

All State deposits are required by law to be collateralized by direct obligations of, or obligations, which are guaranteed by, the United States of America, or other suitable obligations as determined by the Board, unless the Board shall find such collateralization not in the best interest of the State. The Board has determined that certificates of deposit and time deposits must be collateralized, unless the bank issuing the certificate has assets of not less than $5 billion and is rated not lower than "B" by Fitch, Inc. Bank Watch. The Board has also determined that State demand deposits need not be collateralized, provided that any bank that holds these funds has had for the last two years a return on average assets of 0.5% or greater and an average equity-

capital ratio of at least 1:20. If the bank does not meet the above criteria, collateral must consist of one or more of the following:

- U.S. Government securities;
- U.S. Government agency securities;
- Federal Home Loan Board letters of credit;
- State of Delaware securities; or
- Securities of a political subdivision of the State with a Moody's Investors Service rating of "A" or better.

Additionally, the bank must ensure that those securities pledged as collateral have a market value equal to or greater than 102% of the previous month's average ledger balance(s) in the account(s) by the third business day of the following month and ensure that securities pledged are identified as held in the State's name and are segregated on the bank's records.

At June 30, 2010, the carrying amount of the primary government's deposits was $393.2 million and the bank balance was $526.3 million. Of the $526.3 million bank balance, $95.1 million was fully insured; $10.2 million represents unemployment insurance taxes collected from Delaware employers that are held in escrow by the U.S. Treasury; and the remaining $421.0 million was subject to custodial credit risk because they were uninsured and uncollateralized. Included in the primary government's deposits are agency funds. The carrying amount of the agency fund's deposits was $23.5 million and the bank balance was $28.2 million. Of the $28.2 million bank balance, $23.9 million was fully insured and the remaining $4.0 million was subject to custodial credit risk because the deposits were not covered by depository insurance or the deposits were uncollateralized, collateralized with securities held by the pledging financial institutions, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the government's name. State law permits the Treasurer to deposit in a financial institution in the State in which the Treasurer has custody if the deposit is interest bearing; the financial institution provides collateral that has a market value that exceeds the amount by which a deposit exceeds the deposit insurance, and a custodian holds the collateral.

Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the value of the investment or collateral securities that are in the possession of an outside party may not be recovered. Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the government's name.

At June 30, 2010, the primary government's investments were $1,921.1 million. Of the primary government's investments, $395.4 million was fully insured and collateralized. Included in the primary government's investments of $1,921.1 million are agency funds. The amount of the agency funds' investments was $22.8 million.

The following table provides information on $1,525.7 million of the primary government's investments that are exposed to custodial credit risk; $0.8 million of this amount represents the agency funds' investments:

Investment Type	**Fair Value** (Expressed in Thousands)
Corporate obligations	$ 401,810
Municipal obligations	48,066
U.S. government obligations	827,492
Other obligations	112,036
Commercial paper	67,120
Certificates of deposit	69,201
Total	$ 1,525,725

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Also, the terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. The State manages interest rates using the segmented time distribution and effective duration methods. The State approves and contracts with different investment managers of fixed income securities in order to manage the exposure to interest rate risk with each different manager focusing on different goals of yield periods or duration of maturities of their particular portion of the investment pool. The Policy provides either maturity or duration limitations for the various investment pools. The interest rate risk inherent in the portfolio is monitored by measuring the weighted average maturity and/or duration.

Effective duration measures the expected change in value of a fixed income security for a given change in interest rate. This method takes into account the likely timing and amounts of variable cash flows for bonds with call options and prepayment provisions.

The following table presents the fair value and effective duration of the primary government and agency fund investments by investment type at June 30, 2010:

Investment Type	**Fair Value** (Expressed in Thousands)	**Effective Duration (in years)**
Corporate obligations	$ 402,215	1.37
Municipal obligations	48,066	2.09
U.S. government obligations	1,030,087	1.03
Other obligations	123,216	2.48
Commercial paper	247,732	0.12
Certificates of deposit	69,816	0.47
	$ 1,921,132	

Although the Policy does not limit total portfolio maturities, it provides maximum maturity restrictions for each of the investment account types as described below:

- Cash Account Investment. The maximum maturity for any investment at the time of purchase for the cash account is one year.
- Liquidity Accounts. The maximum maturity for any investment at the time of purchase for the liquidity accounts is two years.
- Reserve Cash (Intermediate) Account. The maximum maturity for any investment at the time of purchase is 10 years. The maximum average maturity of the portfolio is seven years.
- Endowment Accounts. The maximum maturity for any investment at the time of purchase is 10 years. The maximum average maturity of the portfolio is seven years. The Board shall consider tailoring maturity restrictions to meet specific purposes for endowment accounts to be established in the future.
- Authority Operating, Bond and Debt Service Reserve Fund Accounts. Maturity Restrictions: The maximum maturity for any investment at the time of purchase is 10 years, except when prudent to match a specific investment instrument with a known specific future liability, in which case the maturity limitation shall match the maturity of the corresponding liability.

As of June 30, 2010, the primary government and agency funds had the following debt investments and maturities:

Investment Maturity
(Expressed in Thousands)

		Investment Maturities			
	Fair Value	**Less Than 1**	**1 to 5**	**6 to 10**	**More than 10**
Long Term Investments					
Corporate obligations					
Corporate bonds	$ 359,719	$ 177,183	$ 180,825	$ 1,427	$ 284
Asset-backed securities	42,496	58	42,438	-	-
Municipal obligations	48,066	20,615	19,980	4,767	2,704
U.S. government obligations					
U.S. Treasury bonds, notes	252,186	144,928	99,401	7,857	-
U.S. Agency bonds, notes	476,496	152,762	306,126	-	17,608
Other obligations					
Private placements	109,623	15,123	94,500	-	-
Pooled investments	13,593	13,593	-	-	-
Short Term Investments					
Commercial paper	247,732	247,732	-	-	-
Certificate of deposit	69,816	65,414	4,402	-	-
U.S. government obligations					
U.S. Treasury bonds, notes	88,828	88,828	-	-	-
U.S. Agency bonds, notes	212,577	212,577	-	-	-
Total Investments	**$ 1,921,132**	**$ 1,138,813**	**$ 747,672**	**$ 14,051**	**$ 20,596**

Credit Risk

Credit risk of investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The Policy requires that the State's investments in asset-backed securities be rated AAA by a major rating agency. Corporate debt instruments must be rated by Standard and Poor's Ratings Services (S & P) and/or Moody's Investor Service (Moody's) and/or Fitch Ratings (Fitch) as follows:

Investment	S & P	Moody's	Fitch
Commercial paper	A-1	P-1	F1
Senior long-term debt	A	A	A
Corporate bonds	AA	Aa	AA

Additionally, the State has multiple non-rated/pooled accounts which represent immaterial amounts when treated individually. The Board permits the types of investments which are held in these accounts.

The following table presents the State's investments which were rated by S & P as of June 30, 2010. The ratings are presented using S & P's rating scale:

Credit Risk - Quality Ratings
(Expressed in Thousands)

Investment Type	TSY	AGY	AAA	AA	A	A-1	NR
Long Term Investments							
Corporate obligations							
Corporate bonds	$ -	$ -	$ 69,235	$ 227,481	$ 37,274	-	$ 25,729
Asset-backed securities	-	-	35,394	-	-	-	7,102
Municipal obligations	-	-	23,950	11,131	334	-	12,651
U.S. government obligations							
U.S. Treasury bonds, notes	252,186	-	-	-	-	-	-
U.S. Agency bonds, notes	-	417,249	3,655	31,222	-	-	24,370
Other obligations							
Canadian	-	-	-	-	-	-	-
Private placements	-	-	72,607	27,576	6,885	-	2,555
Miscellaneous Bonds	-	-	-	-	-	-	-
Pooled investments	-	-	-	-	-	-	13,593
Short Term Investments							
Commercial paper	-	-	-	3,999	-	196,841	46,891
Certificate of deposit	-	-	-	18,430	17,317	-	34,070
U.S. government obligations							
U.S. Treasury bonds, notes	88,828	-	-	-	-	-	-
U.S. Agency bonds, notes	-	212,577	-	-	-	-	-
Total Investments	**$ 341,014**	**$ 629,826**	**$ 204,841**	**$ 319,839**	**$ 61,810**	**$ 196,841**	**$ 166,961**

TSY = Treasury

AGY = Agency which represents securities issued by government -sponsored enterprises that are not rated, but have an implied but not explicit guarantee from the federal government.

NR = Non-Rated Pooled accounts

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the State's investments in a single issuer (5% or more of total investments). When investments are concentrated in one issuer, this concentration represents heightened risk of potential loss. No specific percentage identifies when concentration risk is present. The investments in obligations explicitly guaranteed by the U.S. government, mutual funds, and other pooled investments are exempt from disclosure.

The Policy provides the following percentage of account limitations, valued at market. Investments due to mature in one business day may be excluded from the computation of said limitations.

A. U.S. Government - no restrictions.

B. Government agency - 50% total; 20% in any one agency.

C. Certificates of deposits, time deposits and bankers acceptances - 50% total; 5% in any one issuer.

   1. Domestic - No additional restrictions.
   2. Non-domestic - 25%
   3. Delaware domiciled – Not more than the lesser of $10 million or 25% of an issuer's total equity capital may be invested in any one issuer. (Investments due to mature in one business day may be excluded from the computation of this percentage.)

D. Corporate debt - 50% total; 25% in any one industry; 5% in any one issuer, 5% of any issuer's total outstanding securities.

   1. Domestic - No additional restrictions.
   2. Non-Domestic - 25%; 5% in any one issuer.

E. Repurchase agreements - 50% total.

F. Reverse repurchase agreements - 25% total.

G. Money market funds - 25% total; 10% in any one fund except for the Cash Account, which may invest 100% of the Account in the Delaware Local Government Investment Pool (DELGIP) Fund. The Investment Guidelines for the DELGIP Fund are defined in Appendix B of the Policy.

H. Canadian treasuries - 25% total; 10% in any one agency.

I. Canadian agency securities - 25% total; 10% in any one agency.

J. Mortgage-backed and asset-backed securities – 10% total (when combined with asset-backed securities and trust certificates if applicable).

K. Municipal obligations - 5% in any one issuer.

L. Guaranteed investment contracts - Permitted where it is prudent to match a specific investment instrument with a known specific future liability, subject to credit quality guidelines for commercial paper and corporate bonds and debentures and with adequate exit provisions in the event of the future downgrade of the issuer.

M. Asset-backed securities and trust certificates – 10% total (when combined with mortgage-backed and asset-backed securities if applicable).

At June 30, 2010, the State's investments have met the requirement of all the State's laws and policies, when applicable. There were no obligations that represented 5% or more of the primary government's investments, except for U.S. government securities, pooled and mutual funds.

Foreign Currency Risk

Foreign currency risk is the risk that changes in the foreign exchange rate will adversely impact the fair value of an investment or deposit.

The Policy only permit investments denominated in U.S. dollars; therefore, the State's investments are not exposed to foreign currency risk.

Commitments

At June 30, 2010, the State did not enter into any commitment agreements with any investment managers for future funding of various asset classes.

Securities Lending

The Office of the State Treasurer, with the approval of the Cash Management Policy Board (the Board) entered into a contract with its custodian during Fiscal Year 2006 to participate in its securities lending program. In February 2009, the Board voted to withdraw from the securities lending program, primarily because of concern for current market conditions and counterparty risk. On December 4, 2009, the last loaned security was returned to the custody accounts, and no program collateral was held. The Board has no intention to return to the program.

OPEB Fund Trust (OPEB Trust)

Investment Policy

The State Board of Pension Trustees is responsible for the management and investment of the funds in the OPEB Trust. The Board authorized its Investment Committee to select the investment managers of the OPEB trust following the established investment guidelines for the

DPERS until a separate investment policy is adopted for the OPEB Trust. DPERS follows the prudent person standard, which requires fiduciaries to discharge their duties solely in the interests of participants and their beneficiaries with such care, skill, prudence, and diligence as a person acting in like circumstances would exercise in the conduct of an enterprise with similar character and with similar aims. The OPEB Trust investment objectives and policies currently include indexed exposure to approximate the DPERS's policy benchmark. The Investment Committee regularly reviews the OPEB investment performance, and considers investment vehicles which strike a balance between risk and return while being mindful of the government's time horizon for the OPEB investments.

Delaware Public Employees' Retirement System (DPERS)

Investment Policy

There are no State statutes limiting allowable investments for the DPERS. The investment decisions are dictated by the prudent person rule and the internal investment guidelines established by the Board as outlined below:

- Allocate a minimum of 20% of assets to fixed income investments such as bonds, cash equivalents, and certain real estate investments;
- Maintain a widely diversified portfolio, to minimize the risk of overexposure in any one market segment or investment style;
- Monitor the performance of all investment managers using specific benchmarks;
- Control exposure in illiquid asset classes;
- Review, re-examine, and reconfirm the operation of results of the investment process regularly;
- Identify new long-term opportunities for risk reduction and improved investment returns; and
- Review actuarial assumptions to ensure consistency with capital market expectations.

For the fiscal year ended June 30, 2010, management of the DPERS has operated in accordance with these policies, in all material respects.

Securities Lending

DPERS entered into a contract with its custodian to allow participation in its securities lending program. The objective of securities lending is to earn income and through a conservatively-operated and well-controlled program. DPERS elected not to participate in the program during fiscal years 2010 and 2009, but may elect to participate at some time in the future.

Investments

The following is a listing of fixed income investments and cash equivalents and related maturity schedule which shows the System's exposure to interest rate risk as of June 30, 2010. It is the DPERS' policy to classify corporate convertible bonds as equity securities because those

securities generally convert to preferred equity interests upon maturity. Corporate convertible bonds in the amount of $578.8 million have been included in the chart below because they have maturity dates and are exposed to interest rate risk.

Delaware Public Employees' Retirement System (DPERS or System)
Investment Maturities (in Years)
(Expressed in Thousands)

Investment Type/Sector	Fair Value	Less than 1	1 - 6	6 - 10	10 +
Asset backed securities	$ 1,281	$ -	$ -	$ 55	$ 1,226
Bank loans	-	-	-	-	-
Cash equivalents	190,892	190,892	-	-	-
Commercial mortgage-backed	1,712	-	-	-	1,712
Corporate bonds	571,058	8,698	220,996	180,516	160,848
Corporate convertible bonds	578,789	12,288	407,338	61,138	98,025
Government agencies	22,691	-	4,098	18,593	-
Government bonds	47,039	-	27,016	8,593	11,430
Municipal/provincial bonds	14,319	8,663	-	1,431	4,225
Non-government backed C.M.O.s	-	-	-	-	-
Pooled investments	978,158	-	-	972,976	5,182
Total	$ 2,405,939	$ 220,541	$ 659,448	$ 1,243,302	$ 282,648

Interest Rate Risk

The State has delegated an investment policy for DPERS to the Board and its Committees. The Investment Committee sets its own guidelines in conjunction with the Board to manage and review the DPERS exposure to fluctuating interest rates. Interest rate risk is a consideration when establishing and reviewing investment manager guidelines and asset allocation. Both topics are included in the Statement of Investment Policies and Objectives which is published on the DPERS website.

Credit Risk

The DPERS general investment policy is to apply the prudent-person rule to all risks incurred by the fund: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. The DPERS has no investment policy that would further limit its investment choices related to credit risk. As of June 30, 2010, the DPERS fixed income investments and cash equivalents had the following credit risk characteristics as indicated in the following schedule (expressed in thousands):

Moody's Ratings or Comparable	Percent of Total Fund	Market Value
AAA to A	21.0%	$ 1,336,605
BBB to B	9.4%	596,068
CCC to C	1.9%	121,384
Less than C	0.0%	2,993
Not Rated	5.5%	348,889
Total:	37.8%	$ 2,405,939

*Assets held in pooled investments – specific investment

Custodial Credit Risk

Of the DPERS $284.4 million bank balance, there are two accounts which are uninsured and uncollateralized. Pooled deposits of $0.6 million are held by the State Treasurer's Office. The balance of $280.5 million represents deposits in short-term investments held by The Northern Trust Co., the custodial bank, as of June 30, 2010.

Investment Concentration Risk

As of June 30, 2010, DPERS held no concentration of investments in an individual issuer in excess of 5% of the fair value of the System's net assets.

Management Fees

DPERS paid $18.5 million in management fees to the venture capital limited partnerships and transition managers for the fiscal year ended June 30, 2010. These fees are netted against investment income. Management fees charged at the underlying fund level for the investments held by the First State Independence Fund I, LLC ranged from 1% to 2% of net assets, plus a performance fee of 20% on positive investment earnings, which were netted against earnings.

Investment Commitments

DPERS has commitments to invest up to an additional $669.3 million in venture capital limited partnerships in varying amounts as of June 30, 2010, to be drawn down, as called upon at any time during the term of each partnership, which is usually a ten-year period. Generally, these commitments are self-funding, in that the capital calls are met using cash flows generated by the existing venture capital/limited partnerships as managers in this asset class realize the proceeds of their investments.

Foreign Investments

Foreign investments include equity securities, bonds, cash, and cash equivalents. The following is a listing of the DPERS foreign assets as of June 30, 2010. The listing includes $6.5 million of

investments of domestic issuers which have been classified as domestic, but are denominated in a foreign currency.

Investment Types
(Expressed in Thousands)

Currency	**Fair Value in U.S. Dollars**	**Equities**	**Fixed Income**	**Cash and Cash Equivalents**
Australian dollar	$ 39,086	$ 29,251	$ 9,694	$ 141
Brazilian real	22,321	13,781	8,540	-
British pound sterling	64,105	62,451	1,545	109
Canadian dollar	67,624	23,390	43,986	248
Danish krone	10,092	10,092	-	-
Euro	156,297	152,110	1,827	2,360
Hong Kong dollar	39,916	39,647	-	269
Indonesian rupiah	10,830	3,341	7,466	23
Japanese yen	49,893	49,829	-	64
Mexican peso	10,339	1,687	8,652	-
New Zealand dollar	13,706	-	13,706	-
Norwegian krone	13,780	8,222	5,558	-
Singapore dollar	16,771	13,042	3,729	-
South Korean won	1,647	1,647	-	-
Swedish krona	6,998	6,998	-	-
Swiss franc	17,948	17,948	-	-
Thai baht	30,989	30,940	-	49
United Arab Emirates dirham	932	932	-	-
Total foreign currencies	$ 573,274	$ 465,308	$ 104,703	$ 3,263
Foreign issued investments denominated in U.S. dollars	476,593	438,425	38,168	-
Pooled international investments denominated in U.S. dollars	243,746	243,746	-	-
Total	$ 1,293,613	$ 1,147,479	$ 142,871	$ 3,263

Derivatives

Derivatives are instruments (securities or contracts) whose value is dependent on such things as stock or bond prices, interest rate levels, or currency exchange rates. In June 1994, the Board adopted a formal written policy on the use of derivatives which is reviewed periodically. This policy, as amended, was incorporated in the formalized investment policy adopted by the Board during fiscal year 2007 and reviewed during fiscal year 2008. Some selected managers are permitted to use derivatives. In every case, the types of derivatives used and limits on their use are stated in the manager's contract and are monitored on an ongoing basis. Derivatives serve a variety of useful purposes for DPERS, including the reduction of foreign exchange risk, the minimization of transaction costs and as a means of implementing value added strategies to enhance returns. So-called "exotic" derivatives are not used. If the use of derivatives in a

portfolio strategy results in some leverage, that leverage is never permitted to expose the Fund to a loss greater than the amount committed to that strategy.

The following lists principal categories of derivatives and their uses during the year:

Category	Purpose
Foreign exchange forward contracts	Hedge currency risk of investments denominated in foreign currencies; enhance return
Exchange traded futures contracts	Reduce transaction costs; hedge equity market risk; control fixed income; counterbalance portfolio duration; enhance return
Exchange traded options contracts	Enhance return; reduce transaction costs
Total return equity swaps	Hedge equity market risk exposure

Generally, derivatives are subject both to market risk and counterparty risk. The derivatives utilized by DPERS typically have no greater risk than their physical counterparts, and in many cases are offset by exposures elsewhere in the portfolio (for example, a short S&P 500 futures contract partially hedging a long position in S&P 500 securities). Counterparty risk, the risk that the "other party" to a contract will default, is managed by utilization of exchange traded futures and options where practical (in which case the futures exchange is the counterparty and guarantees performance) and by careful screening of counterparties where use of exchange traded products is impractical or uneconomical.

Derivative securities are priced and accounted for at their fair value. For exchange traded securities such as futures and options, closing prices from the securities exchanges are used. For fixed income derivatives such as collateralized mortgage obligations (CMOs), commercial pricing services (where available) or bid-side prices from a broker/dealer are used. Foreign exchange contracts are valued at the price at which the transaction could be settled by offset in the forward markets.

The Investment Committee monitors the DPERS derivative holdings on a regular basis to ensure that the derivatives used by managers of the DPERS will not have a material adverse impact on its financial condition.

Risk and Uncertainty

DPERS invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk inherent in investment securities, it is possible that changes in the values of investment securities will occur in the near term and that such changes could affect the amounts reported.

The actuarial accrued plan liabilities are measured based on assumptions pertaining to the interest rates, inflation rates and employee demographic behavior in future years. While these assumptions have been chosen after review of past history of the covered participants, it is likely

that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

COMPONENT UNITS

Diamond State Port Corporation (DSPC)

At June 30, 2010, the carrying value and the bank balances of the DSPC's deposits were $16.0 million and $16.3 million, respectively. Of the bank balances, $250,000 is insured by the Federal Deposit Insurance Corporation (FDIC) and $16.0 million is subject to custodial credit risk because the deposits are uninsured and uncollateralized. However, the deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization.

Riverfront Development Corporation (RDC)

At June 30, 2010, the carrying value and bank balances of the RDC's deposits were $270,812 and $247,328, respectively and of which $4,642 were held in the State Investment Pool. Deposits include $170,465 of restricted cash and cash equivalents that have been assigned to the bank as collateral for repayment in the event of a default under the bond or collateral agreements. Of the bank balances, $105,856 is insured by the FDIC and $9,008 is uninsured and uncollateralized. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization.

Delaware State University (DSU)

At June 30, 2010, the carrying value and bank balance of DSU's deposits were $15.3 million and $22.2 million, respectively. Of the bank balances, $1.0 million is insured by the FDIC and $21.2 million is subject to custodial credit because it is uninsured and uncollateralized. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization. An additional $3.5 million of cash and cash equivalents related to unexpended State appropriations are held at the State Treasurer's office. The credit risk for these deposits depends on the investment decisions made by the State Treasurer's office.

Investments of DSU totaled $27.3 million stated at quoted market value, which consist of pooled investments. The investments are owned by DSU and are subject to categorization.

Delaware Technical and Community College Educational Foundation (DTCC Foundation)

At December 31, 2009, the DTCC Foundation's carrying value and bank balance was $329,287 and $329,287, respectively. The Foundation maintains cash balances at one financial institution located in Delaware. Accounts at the institution are insured by the FDIC up to $250,000. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization.

Investments of the DTCC Foundation totaled $9.9 million, stated at quoted market value. These investments consist of pooled investments where the DTCC Foundation does not own specific securities. An additional $56,091 is invested in life insurance, recorded at the cash surrender value.

Delaware Charter Schools

At June 30, 2010, the Delaware Charter Schools deposits carrying value was $27.3 million. Deposits include $25.9 million held in the State Investment Pool. Carrying value of the remainder of deposits was $1.5 million. Bank balances totaled $1.5 million, consisting of $730,009 insured by FDIC and $739,769 uninsured and uncollateralized. The deposits are held at financial institutions that satisfied the State's collateralization requirements and do not require collateralization.

Delaware State Housing Authority (DSHA)

Investment Policies

DSHA has an investment policy that encompasses all moneys related to the issuance of bonds, as well as, all funds otherwise held by DSHA. DSHA seeks first and foremost to ensure safety of principal, and secondly, to attain the highest possible return available given the risk constraints.

DSHA is allowed to invest in certain qualified investments as defined by amended Subchapter II, Section 4013, Chapter 40, Title 31, of the Delaware Code and DSHA's formal investment policy. Subject to certain limitations, such as the credit ratings on bonds and the capitalization level of depositories, "qualified investments" include:

a. Obligations of or explicitly guaranteed by the U.S. or Delaware state governments.
b. Obligations of U.S. government-sponsored enterprises and U.S. government agencies and instrumentalities.
c. Obligations of depositories and other financial institutions.
d. Bankers' acceptances.
e. Commercial paper.
f. Money market mutual funds.
g. Corporate debt obligations.
h. The State of Delaware investment pool with the State Treasurer's Office.
i. Other investment arrangements made pursuant to an investment agreement authorized by a resolution of DSHA.

Certain federal funds administered by DSHA are subject to additional limitations within the qualified investments listed above.

For the State of Delaware Investment Pool, fair value of the pool shares is the same as the carrying value of the pool shares. The State of Delaware Cash Management Policy Board provides oversight for this pool.

Investments

Investments are presented at fair value. Fair values are determined by quoted market prices based on national exchange prices for all investments, except for the State of Delaware Investment Pool. The State pool is valued based on the pool's share price. The table below lists investments and their maturities:

Investment Maturities (in Years)
(Expressed in Thousands)

Investment Type	Fair Value	Less than 1	1 - 5	5 - 10	10 - 20	20 - 30	More than 30
U.S. treasury notes	$ 6,519	$ 2,243	$ 4,034	$ -	$ 334	$ -	$ -
U.S. treasury bonds	25	-	-	-	19	-	-
U.S. treasury bills	-	-	-	-	-	-	-
U.S. treasury strips	2,797	1,232	1,520	-	133	-	-
U.S. agencies	17,807	3,645	13,060	-	-	851	-
Certificates of deposit	771	732	39	-	-	-	-
Commercial paper	104	104	-	-	-	-	-
Corporate notes	2,498	1,619	817	-	-	-	-
Investment	-	-	-	-	-	-	-
agreements	211,159	153,718	3,587	8,398	1,209	13,244	31,002
Money market savings accounts	1,997	1,997	-	-	-	-	-
Bank money market accounts	39,135	39,135	-	-	-	-	-
State of Delaware investment pool	22,586	22,586	-	-	-	-	-
Total Investments:	$ 305,398	$ 227,011	$ 23,057	$ 8,398	$ 1,695	$ 14,095	$ 31,002

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the DSHA's investment policy places limits on maturities for the various funds as follows:

a. Single Family & Multi-Family Program Funds: Investment contracts for bond program funds should have a maturity that matches the final bond maturity to minimize reinvestment risk. Individual investments of bond program funds should match anticipated cash requirements or provide sufficient liquidity to allow funds to be accessed to meet bond resolution requirements without incurring material principal losses.

b. Federal Program Funds: HUD funds held by DSHA should have a maximum maturity of one year. HUD-related funds held by DSHA (escrows, replacement reserves, residual receipts) shall have a maximum maturity of three years.

c. General Fund: The Operating Reserve Account, which is managed externally, should have a maximum maturity at the time of purchase of ten years. However, specific investments may be transferred into the account from time to time that may have a longer maturity. DSHA may further reduce the maximum maturity of the operating reserve investments from time to time.

d. Other DSHA funds should be invested with a maturity that matches, or is prior to, the anticipated time at which the funds will be needed.

e. DSHA investments (other than deposit accounts, money market fund shares, or deposits with the State Treasurer's Office) should have a fixed maturity date by which principal and accrued interest will be fully repaid. DSHA is not permitted to enter into investments that have an expected maturity date that can be extended, depending upon market conditions.

Credit Risk

DSHA's general investment policy is to make investments with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as, the probable income to be derived. DSHA's investment policy limits its investment choices as mentioned above under Investments. For DSHA's Single and Multi-Family Programs, the investment rating must be equal or exceed the bond rating. DSHA's Operating Reserve Account has a specific credit quality requirement. Corporate debt obligations and shares of money market mutual funds shall have a long-term rating of AA and/or Aa, respectively by Standard & Poor's (S&P) and Moody's at the time of purchase. As of June 30, 2010, DSHA's investments were rated as follows:

Ratings (S & P)
(Expressed in Thousands)

Investment Type	AAA	AA+	AA-	A+	A	BBB+	NR
U.S. Agencies	$ 17,807	$ -	$ -	$ -	$ -	$ -	$ -
Corporate Notes	-	446	251	922	879	-	-
Commercial Paper	-	-	-	-	-	-	104
Total	$ 17,807	$ 446	$ 251	$ 922	$ 879	$ -	$ 104

Custodial Credit Risk

For deposits, custodial credit risk is the risk that in the event of failure, the Authority's deposits may not be returned. All of the Authority's despots are insured by the FDIC. As of June 30, 2010, the carrying value and bank balances of the Authority's deposits were $0.2 million and $1.5 million respectively.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, DSHA will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of DSHA's $305.4 million investment balance, $211.2 million represents deposits held by various Guaranteed Investment Contract (GIC) providers under investment agreements. These accounts are uninsured and

uncollateralized. The funds are specifically identified for DSHA, but the custodial credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the GIC provider whose rating must equal or exceed that of the bond rating. The bank and savings money markets must be collateralized at 102% or greater by securities pledged and identified as held in DSHA's name. Although the State Investment Pool is not collateralized, the State's Cash Management Policy Board requires that investments meet certain ratings, investment types and maturity criteria. DSHA's investment policy does not limit the amount of securities that can be held by the counterparties.

NOTE 3 RECEIVABLES

All trade, loan and tax account receivables are recorded net of an allowance for doubtful accounts. In the governmental fund financial statements, receivables that will not be available within 60 days of year-end are recorded as deferred revenue. In the government-wide financial statements, receivables not expected to be collected during the subsequent year are recorded as noncurrent.

Taxes receivable represent the amount of personal, business, and other taxes determined to be measurable and available at June 30, 2010. Uncollectibility for taxes receivable primarily results from identified assessment problems, inability to locate taxpayers, and accounts of decedents.

The State levies taxes on real property through its school districts. Each of the three counties of the State establishes the assessed values of real estate and bills and collects its own property taxes. Local school property taxes are levied by local school districts based on the assessed value of real estate, as determined by county taxation formulas. Taxes are levied on July 1 and are payable on or before September 30. Taxes paid after the payable date are assessed a 6% penalty for nonpayment and 1% interest per month thereafter. Taxes are billed and collected by the counties with funds remitted to the local school district to be used for the local share of school operating costs and debt service on general obligation bonds issued for capital improvements. Receivables as of year-end for the State's individual funds, including the applicable allowances for uncollectible accounts, are as follows:

Receivables - Primary Government
Governmental Activities
(Expressed in Thousands)

	General Fund	Federal Funds	Local School District Funds	Total Receivables
Receivables:				
Taxes	$ 232,713	$ -	$ 29,192	$ 261,905
Interest	2	-	-	2
Accounts	949,752	122,507	747	1,073,006
Loans and notes	170,931	66,110	-	237,041
Intergovernmental	2,641	97,760	-	100,401
Total receivables	1,356,039	286,377	29,939	1,672,355
Allowance for doubtful accounts	(1,044,975)	(112,202)	(260)	(1,157,437)
Total receivables, net	$ 311,064	$ 174,175	$ 29,679	$ 514,918
Amounts not scheduled for collection during the subsequent year	$ 173,070	$ 64,464	$ 19,334	$ 256,868

Receivables - Primary Government
Business-Type Activities
(Expressed in Thousands)

	Unemployment	Lottery	DelDOT	Total Receivables
Receivables:				
Taxes	$ 38,249	$ -	$ -	$ 38,249
Interest	-	-	488	488
Accounts	13,230	6,940	11,287	31,457
Loans and notes	-	-	-	-
Intergovernmental	669	-	15,227	15,896
Total receivables	52,148	6,940	27,002	86,090
Allowance for doubtful accounts	(26,608)	(725)	-	(27,333)
Total receivables, net	$ 25,540	$ 6,215	$ 27,002	$ 58,757
Amounts not scheduled for collection during the subsequent year	$ -	$ -	$ -	$ -

Receivables as of year-end for the State's component units, including the applicable allowances for uncollectible accounts, are shown below:

Receivables
Component Unit Activities
(Expressed in Thousands)

	Delaware State Housing Authority	Diamond State Port Corporation	Riverfront Development Corporation	Delaware State University	Delaware Charter Schools	Total Receivables
Receivables:						
Interest	$ 38,034	$ -	$ 75	$ -	$ -	$ 38,109
Accounts	1,708	2,226	136	13,097	128	17,295
Loans and Notes	943,186	-	1,496	99	-	944,781
Intergovernmental	304	-	-	6,764	-	7,068
Total receivables	983,232	2,226	1,707	19,960	128	1,007,253
Less: Allowance for doubtful accounts	(896)	(51)	-	(5,172)	-	(6,119)
Total receivables, net	$ 982,336	$ 2,175	$ 1,707	$ 14,788	$ 128	$ 1,001,134
Amounts not scheduled for collection during the subsequent year	$ 933,996	$ -	$ 465	$ 99	$ -	$ 934,560

Deferred Revenues

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. Amounts considered unearned federal grant drawdown's are reported as deferred revenue.

The various components of deferred revenue and unearned revenue reported at year-end in the governmental funds are as follows:

Deferred Revenues
(Expressed in Thousands)

Unavailable		
Taxes receivable:	$	73,194
Non-tax receivables:		
Intergovernmental Receivables		33,979
Loans and notes receivables		192,520
Accounts receivables		63,521
Subtotal unavailable		363,214
Unearned		
Advance park reservation fees		936
Federal grant advance drawdowns		16,921
Subtotal unearned		17,857
Total deferred revenue	$	381,071

NOTE 4 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

(a) Due From/Due to Other Funds

Receivables reported as "due from other funds" and the related payables reported as "due to other funds" represent amounts owed to State organizations by other organizations within the State reporting entity. Amounts receivable from or payable to other levels of government are reported as intergovernmental receivables or payables. The composition of due from/due to balances at June 30, 2010, expressed in thousands, is as follows:

Receivable Fund	Payable Fund	Amount
General	Capital Projects	$ 18,145
	Federal	$ 30,546
	Local school district	2,665
	Subtotal	51,356
General	Enterprise Fund Lottery	6,510
	Total	$ 57,866

The amounts due from the federal fund are recorded for borrowings to eliminate negative balances in the State Investment Pool. The amount for the federal fund is created by

expenditures relating to reimbursement type federal grant revenues. These costs result in a negative balance in the State Investment Pool. Amounts due from local school districts represent balances due from the Christina School District which were borrowed for general operating expenses and capital projects.

The amount due from the Lottery fund (reported as an internal balance on the statement of net assets), represents profits required by law to be transferred to the general fund.

(b) Transfers In From/Out To Other Funds

Transfers in and transfers out from/to other funds in the statement of revenues, expenditures and changes in fund balance, the statement of revenues, expenses and changes in fund net assets, proprietary funds and payment from the primary government in the statement of activities-component units represent transfers between funds. Transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) use restricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, and 3) move profits from the Lottery fund as required by State law.

A schedule of transfers in and transfers out for the year ended June 30, 2010 is presented below (expressed in thousands):

	Transfers In	Transfers Out
Governmental funds		
General	$ 914,041	$ 26,422
Federal	-	21,220
Local school district	56,174	90,924
Capital Projects Fund	-	495,769
Proprietary funds		
Lottery	-	334,609
DelDOT	3,112	4,383
Total of all funds	$ 973,327	$ 973,327

NOTE 5 GENERAL OBLIGATION BONDS

General obligation bonds have been authorized and issued primarily to provide funds for acquisition and construction of capital facilities for State administrative operations, public and higher education, public and mental health, correction and conservation purposes and for maintenance and construction of highway facilities.

The State Constitution provides that the State may issue general obligation bonds for specific purposes in amounts approved by the General Assembly. The enabling acts pursuant to which

the bonds are issued provide that all bonds issued shall be direct obligations of the State; that is, the bonds are secured by the pledge of the full faith and credit of the State. General obligation bonds are redeemed over a period not to exceed 20 years, generally from available resources in the general fund. Accordingly, the State has generally issued 10- and 20-year serial bonds with equal amounts of principal maturing each year. Bonds outstanding have call provisions providing for early redemption at the option of the State, generally beginning 8 or 10 years following the date of issue in the inverse order of maturity, in whole or in part, at redemption prices not to exceed 100% of par value.

On October 22, 2009, the State issued $493.0 million of general obligation bonds consisting of $313.7 million of Series 2009C and $179.3 million of Series 2009D. Of the $313.7 million bonds issued as Series 2009C, $283.0 million in principal was issued to refund higher priced bonds resulting in a net present value savings of $15.3 million, or 5% of the principal refunded. The Series 2009C bonds were sold to retail and institutional investors and bore coupons between 2% and 5%. The Series 2009D bonds were designated as taxable "Build American Bonds" for purposes of the American Recovery and Reinvestment Act of 2009. The State has elected to receive a cash subsidy from the U.S. Treasury of 35% of the interest payable on the Series 2009D bonds. Series 2009D coupons range from 3.7% to 5.3%. The investments and fixed earnings on the investments are sufficient to fully provide for all further debt service on the refunded bonds. The refunding for Series 2009 C resulted in an economic gain of $16.1 million and a debt service cash savings over the next nineteen years of $15.3 million.

The refunding for Series 2010 resulted in an economic gain of $10.3 million and a debt service cash savings over the next eleven years of $9.2 million.

On May 11, 2010, the State issued $152.2 million in general obligation bonds, which were used to refund $160.5 million of the State's existing tax-exempt debt for savings. The bonds mature between January 1, 2011 and July 1, 2020 and bear coupons between 1.5% and 5%. The transaction reduced debt service by $10.3 million.

Bonds issued and outstanding totaled $1,497.4 million at June 30, 2010. Of this amount, $516.0 million is supported by property taxes collected by the local school districts. During fiscal year 2010, the local school district funds transferred $58.1 million of property tax revenue to the State to meet the required debt service on their share of the debt.

The State is authorized to issue an additional $225.6 million of general obligation bonds at June 30, 2010. Interest rates and maturities of the outstanding general obligation bonds are detailed as follows:

General Obligation Bonds
(Expressed in Thousands)

Sale #	Description	Interest Rates	Maturity Date (Fiscal Year)	Balance Outstanding at June 30, 2010
210	GO 2010A2	2.000%-3.000%	2018	$ 26,250
209	GO 2010A1	1.500%-5.000%	2024	125,900
208	GO 2009D	3.700%-5.300%	2029	179,315
207	GO 2009C2	2.000%-3.000%	2024	44,685
206	GO 2009C1	3.000%-5.000%	2027	268,980
205	GO 2009B	4.750%-5.000%	2026	102,100
204	GO 2009A2	4.750%-5.000%	2017	5,275
203	GO 2009A1	4.750%-5.000%	2029	86,725
202	GO 2008B	4.750%-5.000%	2016	80,855
201	GO 2008A	3.000%-5.000%	2016	6,685
200	GO 2007A	4.000%-5.000%	2027	122,875
199	GO 2006C	0%	2022	1,433
198	GO 2006B	4.000%-5.500%	2026	99,635
197	GO 2006A	3.75%-4.500%	2026	17,490
196	GO 2005D	3.50%-5.0%	2025	89,000
195	GO 2005C	5%	2023	45,335
194	GO 2005B	2.625%-5.0%	2024	38,125
193	GO 2005A	2.25%-4.25%	2025	19,820
192	QZAB 2004B	0%	2020	224
191	GO 2004A	3.0%-6.0%	2024	90,405
190	QZAB 2003D	0%	2018	908
189	GO 2003C	4.0%-6.0%	2011	18,000
188	GO 2003B	4.0%-5.0%	2011	7,585
187	GO 2003A	2.625%-5.0%	2011	7,300
186	QZAB 2002B	0%	2016	760
185	GO 2002A	4.0%-5.250%	2010	9,270
184	QZAB 2001B	0%	2011	649
170	GO 1992B	4.7%-6.1%	2012	1,771
		Total, gross		1,497,355
		Plus: unamortized bond premium		127,902
		Total general obligation bonds		$ 1,625,257

The following table sets forth the future debt service requirements on outstanding general obligation bonds at June 30, 2010:

Total General Obligation Bonds
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2011	$ 140,750	$ 64,598	$ 205,348
2012	129,141	62,767	191,908
2013	134,129	56,119	190,248
2014	133,065	47,833	180,898
2015	120,620	41,977	162,597
2016-2020	451,813	136,348	588,161
2021-2025	262,057	60,644	322,701
2026-2030	125,780	13,179	138,959
Total	$ 1,497,355	$ 483,465	$ 1,980,820

Changes in general obligation bonded debt during the year ended June 30, 2010 are summarized in Note 10.

In prior years, the State has defeased certain general obligation bonds by creating separate irrevocable trust funds. New debt has been issued or cash appropriated and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt. Accordingly, the debt has been considered defeased and has been removed as a liability from the government-wide financial statements. At June 30, 2010, a total of $475.6 million of defeased bonds were outstanding.

NOTE 6 REVENUE BONDS

Revenue Bonds

The State Constitution empowers certain State agencies and authorities to issue bonds that are not supported by the full faith and credit of the State. These bonds pledge income derived from acquired or constructed assets or some other stream of revenues to retire the debt and pay related interest.

Primary Government

DelDOT Fund

Delaware Transportation Authority (Authority)

The Authority is subject to oversight by the Department of Transportation and is included in the DelDOT fund. The Authority assists in the implementation of the State's plans and policies regarding the coordination and development of a comprehensive, balanced transportation system for the State. It has the power to develop a unified system of air, water, vehicular and specialized transportation in the State. The Authority includes the Transportation Trust Fund and the Delaware Transit Corporation. The Secretary of the Department of Transportation, with consent of the Governor, appoints the Authority's Director.

To assist the Authority in financing a unified transportation system, the State created a Transportation Trust Fund (the Trust Fund) within the Authority which receives all receipts of the Authority. The primary sources of funding of the Trust Fund are motor fuel taxes and motor vehicles fees imposed and collected by the State and deposited in the Trust Fund, and revenue from the Delaware Turnpike, which the Authority owns and operates. The Authority also has the power to issue bonds, with legislative authorization, to finance improvements to the State's transportation system. Debt issued by the Authority does not constitute a debt of the State or a pledge of its general taxing power or of its full faith and credit. Rather, the outstanding revenue bonds are obligations of the Authority payable solely from and secured by a pledge and assignment of certain tolls and revenues such as motor fuel tax revenue, motor vehicle document fees, and motor vehicle registrations. The Authority may apply Trust Fund revenue in excess of debt service requirements for transportation projects, subject to legislative authorization, and may pledge any or all of this revenue to secure financing for these projects.

The Authority has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is therefore not reported as a liability. At June 30, 2010, the amount of defeased debt outstanding amounted to $151.6 million.

The Authority had a total of $200.2 million in authorized but unissued revenue bonds at June 30, 2010. Bonds outstanding at June 30, 2010 amounted to $1,182.0 million and are presented as follows:

Delaware Transportation Authority Revenue Bonds
(Expressed in Thousands)

Description	Interest Rates	Maturity Date (Fiscal Year)	Balance Outstanding At June 30, 2010
Transportation System Senior Revenue Bonds - Series			
2000	5.50%	2020	$ 3,910
2001	4.5% - 5.0%	2021	24,415
2002 B	4.0% - 5.25%	2022	98,245
2003	4.5% - 5.0%	2023	153,305
2004	4.0% - 5.0%	2024	149,330
2005	4.25% - 5.0%	2025	139,510
2006	3.5% - 5.0%	2026	116,240
2007	4.0% - 5.0%	2021	79,280
2008A	4.0% - 5.0%	2028	82,450
2008B	4.0% - 5.0%	2029	117,875
2009	5.00%	2029	105,315
Transportation System Junior Grant Anticipation Bonds			
2010 Series	2.0% - 5.0%	2025	113,490
	Total, gross		1,183,365
	Less: deferred amount on refunding		(1,352)
	Total, net		1,182,013
	Less: current portion of debt outstanding		(71,489)
	Long term portion of debt outstanding		$ 1,110,524

Future debt service requirements for the Authority's outstanding bonds are shown in the table below:

Delaware Transportation Authority Revenue Bonds
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2011	$ 71,760	$ 53,061	124,821
2012	77,035	50,947	127,982
2013	79,590	47,119	126,709
2014	78,375	43,210	121,585
2015	78,680	39,456	118,136
2016-2020	365,770	143,644	509,414
2021-2025	309,960	63,864	373,824
2026-2030	122,195	12,485	134,680
Total	$ 1,183,365	$ 453,786	$ 1,637,151

The transportation system revenue bonds have fixed interest rates and are limited obligations of the Authority secured only by the pledged revenues of the trust funds. Summary financial information at June 30, 2010 for the trust funds, which is the segment of DelDOT that supports the revenue bonds, is presented below and on the following page:

Condensed Balance Sheets
(Expressed in Thousands)

Assets:	
Current assets	$ 339,185
Capital assets	1,136,044
Other assets	62,057
Total assets	$ 1,537,286
Liabilities:	
Current liabilities	127,283
Noncurrent liabilities	1,143,915
Total liabilities	1,271,198
Net Assets:	
Invested in capital assets, Net of related debt	40,209
Unrestricted	65,978
Restricted	159,901
Total net assets	266,088
Total liabilities and net assets	$ 1,537,286

Condensed Statements of Revenues,
Expense and Changes in Net Assets
(Expressed in Thousands)

Operating revenues (pledged against bonds)	$ 360,832
Other operating revenues	53,132
Depreciation expense	(194)
Other operating expenses	(342,875)
Operating income	70,895
Nonoperating revenues (expenses):	
Investment income (pledging against bonds)	2,302
Other investment income (loss)	(19,696)
Interest expense	(43,921)
Transfer from State General Fund	3,401
Change in net assets	12,981
Beginning net assets	253,107
Ending net assets	$ 266,088

Condensed Statements of Cash Flows
(Expressed in Thousands)

Net cash provided by (used in):	
Operating activities	$ 68,989
Noncapital financing activities	3,401
Capital and related financing activities	(29,421)
Investing activities	(44,728)
Net increase (decrease)	(1,759)
Beginning cash and cash equivalents	11,084
Ending cash and cash equivalents	$ 9,325

Component Units

Debt issued by the following component units is not secured by the full faith, credit and taxing power of the State.

Delaware State Housing Authority (DSHA)

DSHA is authorized to issue bonds and notes, with the approval of the State, in order to exercise its powers. These bonds and notes are secured solely by the revenues, loans, and other pledged assets under the related Bond Indenture of DSHA.

DSHA has issued revenue bonds to provide financing for mortgage, construction, and other loans to not-for-profit and limited for profit housing sponsors; to make loans to mortgage lenders, requiring the proceeds thereof to be used for making new qualified residential mortgage loans; and to purchase qualified mortgage loans from mortgage lenders. The bonds are direct obligations of DSHA and are secured by the mortgage loans made or purchased under the applicable resolutions; the revenues, prepayments and foreclosure proceeds received are related to the mortgage loans, and certain funds and accounts established pursuant to the applicable bond resolutions. All bonds are callable subject to certain restrictions. Interest rates on bonds outstanding range from 1.35% to 7.75% with maturities of such bonds up through July 1, 2048.

On September 11, 2009, DSHA issued $40.0 million of Single Family Mortgage Revenue Bonds, 2009 Series A. The proceeds of the sale were used to provide down payment assistance and low rate mortgages to first-time home buyers and to provide over $2.0 million of Second Mortgage Assistance Loans for down payment and closing cost assistance to qualified home buyers.

On December 23, 2009, DSHA issued $150.0 million of Single Family Mortgage Revenue Bonds, 2009 pursuant to the New Issue bond Program (NIBP) established jointly by Fannie Mae, Freddie Mac, the Federal Housing Finance Agency, and the U.S. Department of the Treasury (US Treasury) under which the US Treasury provides funding for bond issuance. The proceeds from the sale are currently held in escrow pending matching DSHA bond issuances of market bonds to make fund available to finance qualifying single family mortgage loans. The Authority has until December 31, 2010 to meet the requirement for matching bond issuances. If this deadline is not met the $150.0 million NIBP bonds are subject to mandatory redemption plus the payment of accrued interest. As of June 30, 2010, all of the NIBP bonds have been classified as a current liability.

Revenue bonds payable decreased by $1.6 million due to accretion on capital appreciation bonds, netted by deferred amounts on refunding and bond forgiveness.

Outstanding bonds at June 30, 2010 amounted to $964.3 million. Future debt service requirements for DSHA's bonds are shown on the following table:

Delaware State Housing Authority Revenue Bonds
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2011	$ 168,457	$ 40,798	$ 209,255
2012	17,435	39,749	57,184
2013	18,475	38,877	57,352
2014	18,395	37,989	56,384
2015	18,445	37,086	55,531
2016-2020	99,800	171,057	270,857
2021-2025	118,298	143,282	261,580
2026-2030	143,240	109,862	253,102
2031-2035	158,316	71,135	229,451
2035-2040	150,713	23,364	174,077
2041-2045	23,750	7,415	31,165
2046-2049	28,948	1,375	30,323
Total	$ 964,272	$ 721,989	$ 1,686,261

Riverfront Development Corporation (RDC)

Bonds payable represents amounts due under variable rate bonds, which were issued by RDC in November 1997. The bonds bear interest at a rate which is determined quarterly and is equal to the yield on 90-day U.S. Treasury bills plus 0.30% with a minimum rate of 5.125%. The rate as of June 30, 2010 was 5.125%. The bonds mature December 1, 2017.

Estimated future annual debt service requirements are as follows:

Riverfront Development Corporation Revenue Bonds
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2011	$ 360	$ 177	$ 537
2012	385	157	542
2013	420	137	557
2014	470	114	584
2015	505	89	594
2016-2017	1,485	103	1,588
Total	$ $3,625	$ $777	$ $4,402

Delaware State University (DSU)

Revenue bonds payable at June 30, 2010 are as follows:

Delaware State University
Revenue Bonds Payable
(Expressed in Thousands)

Revenue Refunding Bonds	$	7,459
Revenue Bonds		47,869
Student Housing Foundation Bonds		50,703
Total	$	106,031

On May 6, 1999, the DSU issued revenue refunding bonds of $15.9 million (par value) through the Delaware Economic Development Authority. These bonds are due on October 1, 2017 and are secured by un-appropriated gross revenues of DSU.

The Bond Trust Indenture requires DSU to maintain a debt service reserve fund equal to the maximum annual debt service on all bonds outstanding under the Indenture. DSU meets this requirement by providing for the deposit through a surety bond in the debt service reserve fund. This bond was obtained from MBIA Insurance Corporation in the amount of $1.6 million. DSU has pledged all operating and non-operating revenues, except State appropriations and restricted gifts, grants and bequests, for each academic year during which any of the bonds remain outstanding. It was noted that the 1999 bonds were backed by MBIA who had no letter of credit expiration date.

Interest rates and remaining maturities of the 1999 bonds are as follows:

Delaware State University Revenue Refunding Bonds
(Expressed In Thousands)

Year Ending June 30	Interest Rate	Principal	Interest	Total
2011	4.00	$ 805	$ 324	$ 1,129
2012	4.00	835	290	1,125
2013	4.00	875	254	1,129
2014	4.40	905	215	1,120
2015	4.40	945	175	1,120
2016-2018	4.40 - 5.25	3,130	211	3,341
		7,495	$ 1,469	$ 8,964
Less Unamortized bond discount:		(36)		
Total bonds payable at June 30, 2010		$ 7,459		

On December 20, 2007, DSU issued revenue bonds of $47.6 million (par value) through the Delaware Economic Development Authority (Delaware EDA). The bonds are due on October 1, 2036 and are secured by un-appropriated gross revenues of DSU. The 2007 bonds are being issued as "Additional Bonds" under the Indenture, secured equally and ratable with all other Bonds issued and outstanding under the Indenture and any Alternative Indebtedness as provided in the Indenture and in the Loan Agreement. Pursuant to the Indenture, the Delaware EDA issued for the benefit of DSU, its $15.9 million revenue refunding bonds (Delaware State University Project) Series 1999 to advance refund all other Bonds then outstanding under the Indenture. The 2007 bonds are insured by MBIA Insurance Corporation. The bonds were secured for the construction of a new student union, a swimming pool, and a student wellness/recreation center. The Union will include a student club area, book store, copy center, mail services, game room, study area, commuter lounge, meeting rooms and administrative offices. The primary function of the pool is to provide a recreational environment. The student wellness/recreation center will serve student athletes in restricted areas and the general student population will have recreational courts, fitness equipment, intramural sports, and an academic component for wellness and health programs. It was noted that the 2007 bonds were backed by MBIA who had no letter of credit expiration date.

Delaware State University Revenue Bonds

(Expressed In Thousands)

Year Ending June 30	Interest Rate	Principal	Interest	Total
2011	4.00	$ -	$ 2,208	$ 2,208
2012	4.00	-	2,208	2,208
2013	4.00	-	2,208	2,208
2014	4.00	-	2,208	2,208
2015	4.00	-	2,208	2,208
2016-2020	4.00 - 5.00	2,620	10,974	13,594
2021-2025	4.00 - 5.00	7,630	9,856	17,486
2026-2030	4.00 - 5.00	9,655	7,871	17,526
2031-2035	4.00 - 5.00	12,110	5,240	17,350
2036	4.00 - 5.00	15,565	2,194	17,759
Total, gross		47,580	$ 47,175	$ 94,755
Plus unamortized bond premium		289		
Total bonds payable at June 30, 2010		$ 47,869		

The Delaware State University Student Housing Foundation (the Foundation), a component unit of DSU, is a non-profit corporation organized for the purpose of acquiring, developing, constructing, and operating student housing facilities primarily for students and faculty of DSU. The property is located in Dover, Delaware and the Foundation's development and construction project consists of three phases, collectively known as Phase I, II, and III. The Foundation has a fiscal year-end of June 30, 2010. The Foundation has issued student housing revenue bonds, secured by deed and payable solely from the revenues of the Foundation, for which bond proceeds were restricted to the development, construction, furnishing and equipping of the student housing facilities.

The Foundation refinanced the Series 2000A and 2002A Bonds (the Prior Bonds) with a loan payable in an aggregate amount of $18.4 million funded with proceeds from the issuance of student housing revenue bonds, Series 2004A (for Phases I and II). Pursuant to the Trust indenture dated January 1, 2004, the proceeds from the sale of the Series 2004A Bonds are restricted to refunding prior outstanding bonds, to fund a debt service reserve fund for the Series 2004A Bonds, to fund an operating reserve fund for the Series 2004A Bonds, and to pay a portion of the costs of issuance of the Series 2004A Bonds. Effective February 21, 2004, the Foundation defeased the tax-exempt Series 2000A and the tax exempt Series 2002A term bonds at face value. It was further noted that the letter of credit for the 2004A bonds were backed by ACA with no letter of credit expiration, whereas the 2004B bonds were backed by Wachovia, who provided a letter of credit extension through January 2011.

The Foundation financed development and construction of Phase III with a loan payable in an aggregate amount of $36.3 million funded with the proceeds from the issuance of variable rate demand student housing revenue bonds, Series 2004B and 2004C. Pursuant to the trust indenture dated January 1, 2004, the proceeds from the sale of the Series 2004 Bonds are restricted to financing the construction, furnishing, and equipping Phase III of the Project, to defease in advance of their maturities, the former Series 2000B and 2002B Bonds, to fund interest on the Series 2004 Bonds during construction, to fund a debt service reserve fund for the Series 2004B Bonds, and to pay a portion of the costs of issuance of the Series 2004 Bonds.

The liability of the Foundation under the loan agreements is limited to the value of the building and improvements, pledged revenues and amounts deposited with the trustee. The first monthly interest payment on the Series 2004 Bonds began on July 1, 2004. Total accrued interest on all bonds as of June 30, 2010 is $0.4 million.

In February 2010, the University entered into an interest rate swap agreement in order to hedge interest rate exposure on the underlying bonds. The swap agreement had a fair value liability of $11,024 at June 30, 2010 which is reflected in the consolidated statement of financial position.

Maturities of long-term debt at June 30, 2010 are as follows:

Delaware State University
Student Housing Foundation
Revenue Bonds
(Expressed in Thousands)

Year Ending June 30	Principal
2011	$ 1,040
2012	1,090
2013	1,140
2014	1,185
2015	1,235
2016-2020	7,085
2021-2025	8,890
2026-2030	11,205
2031-2035	14,170
2036-2037	4,205
Subtotal	$ 51,245
Less bond discount (net of accumulated amortization)	(542)
Total	$ 50,703

In February 2009, management terminated an interest rate swap held with Wachovia, which was previously entered into for its variable rate, tax-exempt, Series 2004B bonds of $35.9 million. The settlement of the swap resulted in a payment of $212,670, with a June 30, 2009 obligation of $212,629. While the termination of the swap did result in a violation of its debt covenant for its 2004B bonds, the Foundation did obtain a waiver for the respective covenant through January 2010. The Foundation entered into a new interest rate swap agreement with Wells Fargo (formerly Wachovia) in February 2010.

The swap agreement is as follows:

	Notional Amount	Start Date	Maturity Date	Fixed Rate	Floating rate
Muncipal Swap Index	$ 34,530,000	02/01/2010	06/30/2010	0.68%	USD/SIFMA
Muncipal Swap Index	$ 33,870,000	07/01/2010	01/22/2011	0.68%	USD/SIFMA

NOTE 7 LOANS AND NOTES PAYABLE

Component Units

Delaware State Housing Authority (DSHA)

The State issued general obligation bonds on behalf of DSHA to provide funding for low-income housing loans. Proceeds from these bonds enabled DSHA to receive the savings from the financing adjustment factor issues in advance. Interest rates on these notes payable range from 4.60% to 6.10% with maturities through February 1, 2015. Debt service requirements for these notes are shown in the following table:

Delaware State Housing Authority
Financing Adjustment Factor Notes
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2011	$ 123	$ 117	$ 240
2012	69	117	186
2013	20	3	23
2014	19	2	21
2015	19	1	20
Total	$ 250	$ 240	$ 490

Diamond State Port Corporation (DSPC)

Loan and notes payable of the DSPC at June 30, 2010 are shown below:

Diamond State Port Corporation
Loans and Notes Payable
(Expressed in Thousands)

Transportation Trust Fund Loan	$ 21,043
City of Wilmington Port Debt Service Notes	7,454
Delaware River and Bay Authority	3,382
Wilmington Trust Company	263
Bank of America	250
Total	$ 32,392

Transportation Trust Fund Loan

On November 30, 2001, DSPC entered into a loan agreement with DelDOT. DSPC borrowed $27.5 million. The funds were used to repay the balances in full of the original Delaware River and Bay Authority Note and the Wilmington Trust Company Note, and, at a discount, the City of Wilmington Deferred Payment Note.

In July 2006, the Transportation Trust Fund Loan was restructured to allow for the deferral of debt service principal and interest payments due July 1, 2006 and January 1, 2007, and to restructure the repayment of the outstanding principal balance effective July 1, 2007 over the next 22 years. Additionally, the State appropriated $10.0 million to be applied as a repayment of principal and interest on July 1, 2007. Beginning March 31, 2007, principal and interest payments are March 31 and May 31 each year. In June 2009, the loan was restructured to allow for the deferral of debt service principal and interest payments due March 31, 2010 and May 31, 2010, and to restructure the principal balance effective July 1, 2009 over the next 21 years. The interest rate was 3.99% during 2010 and 4.6% during 2009. The loan matures March 2029.

Interest expense charged to operations in 2010 was $0.8 million.

The future maturities of principal and interest payments on the Transportation Trust Fund Loan are as follows:

Transportation Trust Fund Loan
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2011	$ 789	$ 839	$ 1,628
2012	821	807	1,628
2013	854	774	1,628
2014	888	740	1,628
2015	923	704	1,627
2016-2020	5,203	2,936	8,139
2021-2025	6,334	1,805	8,139
2026-2030	5,231	466	5,697
Total	$ 21,043	$ 9,071	$ 30,114

City of Wilmington Note

In 1995, in consideration of the acquisition of the Port of Wilmington assets from the City of Wilmington (the City), Delaware, DSPC issued to the City two separate notes consisting of a Port Deferred Payment Note in the amount of $39.9 million and Port Debt Service Notes with an original face amount of $51.1 million. These notes are secured by a first lien on substantially all of the DSPC's assets. These notes obligate DSPC to pay the City amounts that generally represent the outstanding principal balance of certain DSPC-related City general obligation bonds. The interest rates on the City bonds range from 3.2% to 6.4%.

On October 20, 2001, the City issued \$22.2 million of general obligation bonds with an average interest rate of 3.70% to advance refund \$21.3 million of outstanding 1992 A, B, and C Series general obligation bonds with an average interest rate of 6.16%. DSPC-related portions of the new bonds issued and old bonds redeemed were \$7.2 million and \$6.9 million, respectively, passed through to DSPC. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of \$0.3 million for the year ended June 30, 2002, it reduced DSPC's debt service payments by \$0.3 million over eleven years resulting in an economic gain. The deferred loss on the refunding is accreted over the eleven year life of the debt.

On October 5, 2004, the City issued \$12.9 million of general obligation bonds with an average interest rate of 3.73% to advance refund \$11.7 million of outstanding 1993 B Series general obligation bonds with an average interest rate of 5.0%, and a portion of interest of \$0.2 million due January 1, 2005. DSPC-related portions of the new bonds issued and old bonds redeemed were \$4.0 million and \$3.6 million, respectively, passed through to DSPC. Although the effect of the City's advance refunding on the Port Debt Service Note resulted in a deferred accounting loss of \$0.4 million it reduces DSPC's debt service payments by \$0.3 million over the next seventeen and a half years resulting in an economic gain. The deferred loss on the refunding is accreted over the seventeen and a half year life of the debt. The deferred loss balance on the 2004 refunding as of June 30, 2010 was \$0.4 million.

On June 30, 2006, the State of Delaware paid the City, on behalf of DSPC, \$5.0 million in lieu of amounts due for the DSPC-related portions of the City's 1993B and 2004B bond payments due July 1, 2006 and July 1, 2007 totaling \$5.6 million, reducing the total amount owed to the City by \$5.6 million. The effect on the advance payment was a reduction of principal in the amount of \$5.0 million, a reduction of accrued interest due July 1, 2006 in the amount of \$0.3 million, and a resulting gain of \$0.4 million.

On June 26, 2008, the City of Wilmington refunded Series 1996B bonds, and those bonds were replaced by Series 2008A bonds, which DSPC has correlating notes with the City. Overall, DSPC will pay an additional \$60,000 in principal over the next nine years; however, DSPC will save \$0.3 million in interest during the same period. In summary, DSPC will pay \$0.3 million less on the City notes due to the refunding/financing. Maturity for these bonds occurs on July 1, 2022.

On April 19, 2010, the City of Wilmington refunded Series 1993B, 2004B, and 2008A bonds, and those bonds were replaced by Series 2010A bonds, which the Corporation has correlating notes with the City. The immediate impact is a reduction in debt service of \$1.06 million for 2011 and 2012. Overall, the Corporation will save \$0.1 million in principal, resulting in an economic gain; however, the Corporation will pay an additional \$0.9 million in interest over the next 13 years.

Total deferred loss balance as of June 30, 2010 was \$0.4 million.

Principal and interest payments made on the note during 2010 were $2.5 million and $0.4 million, respectively.

Interest expense on the note in 2010 was $0.4 million.

The future maturities of principal and interest payments on the Port Debt Service Notes are as follows:

Port Debt Service Note
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2011	$ 422	$ 364	$ 786
2012	1,183	320	1,503
2013	610	291	901
2014	661	264	925
2015	701	233	934
2016-2020	2,416	715	3,131
2021-2023	1,853	126	1,979
Subtotal	7,846	2,313	10,159
Deferred loss on refunding	(392)	-	(392)
Total	$ 7,454	$ 2,313	$ 9,767

Delaware River and Bay Authority (DRBA) Obligation

On March 1, 2005, DSPC entered into an agreement with the DRBA whereby the DSPC agreed to lease to the DRBA land and a warehouse, located at the Port, for twenty years. The rent for the entire twenty-year term of the lease was $4.0 million, to be paid in advance. Simultaneously, DSPC and the DRBA entered into an operating agreement in which DSPC agreed to make guaranteed payments to the DRBA, at the beginning of each month, starting with the date upon which substantial completion has occurred, for a period of twenty years, totaling $4.0 million plus interest, which ranges from 1.5% to 5.32%.

This transaction is accounted for as a loan from DRBA secured by revenue from warehouse operations. DSPC began making guaranteed payments on July 1, 2007.

Interest expense incurred on this obligation was less than $0.1 million.

The future maturities of principal and interest payments on the DRBA obligation are as follows:

Delaware River and Bay Authority Obligation
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2011	$ 212	$ 49	$ 261
2012	215	46	261
2013	175	86	261
2014	181	81	262
2015	186	75	261
2016-2020	888	419	1,307
2021-2025	1,030	277	1,307
2026-2027	495	28	523
Total	$ 3,382	$ 1,061	$ 4,443

Wilmington Trust Company (WTC) Loan

DSPC entered into a loan agreement with WTC on August 17, 2007 for $0.4 million to purchase two 45,000 lbs. Hyster forklifts. Monthly payments to WTC of $6,186 began on September 17, 2007. The loan is for seven years, and the interest rate is 7.40%.

Interest expense incurred on this obligation was less than a million during 2010.

The future maturities of principal and interest payments on the WTC obligation are as follows:

Wilmington Trust Company Loan
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2011	$ 56	$ 18	$ 74
2012	61	13	74
2013	65	9	74
2014	70	4	74
2015	11	-	11
Total	$ 263	$ 44	$ 307

Bank of America Master (BOA) Lease

In 2008, DSPC utilized the State of Delaware's Master Lease program (as administered by BOA) to purchase the twelve forklifts for $0.3 million using two loans. Both loans are for ten years at interest rates of 2.88% and 3.23%, respectively. Payments began one month after the purchase dates.

Interest expense incurred on this obligation was less than a million during 2010.

The future maturities of principal and interest payments on the BOA obligation are as follows:

Bank of America Master Lease
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2011	$ 29	$ 7	$ 36
2012	29	6	35
2013	30	5	35
2014	31	4	35
2015	32	4	36
2016-2018	99	5	104
Total	$ 250	$ 31	$ 281

Riverfront Development Corporation (RDC)

The RDC has entered into multiple mortgage agreements with various banks. These mortgages are secured by the real estate and vehicles financed. Principal balances of the mortgages total $14.0 million at June 30, 2010. Interest rates for the mortgages vary between 5.455% and 8.15% and mature between June 2011 and November 2014.

Estimated future annual debt service requirements are shown as follows:

Riverfront Development Mortgage Debt
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Total
2011	$ 4,945	$ 499	$ 5,444
2012	3,645	232	3,877
2013	345	125	470
2014	300	116	416
2015	4,800	56	4,856
Total	$ 14,035	$ 1,028	$ 15,063

NOTE 8 LEASE COMMITMENTS

Primary Government

The State has entered into various property and equipment operating leases (terms in excess of one year) with aggregate future rentals approximating $176.9 million, of which $151.2 million relates to property leases and $25.7 million relates to equipment leases. Operating leases contain various renewal options. Any escalation clauses, sublease rentals and contingent rents are considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures of the related fund when paid. Lease payments for fiscal year 2010 were approximately $36.8 million, of which $25.6 million was for office space and $11.2 million, was for equipment. The equipment leases held by the State consists mainly of computers, data processing equipment and fleet vehicles.

Significant annual equipment rentals include $5.0 million for fleet vehicles and data processing equipment for the Office of Management and Budget and $1.5 million for data processing equipment for the Department of Education. Significant annual real estate rentals include $6.7 million for leases for Health and Social Services facilities, $2.1 million for the Department of Services for Children, Youth and Their Families, $2.1 million for office space for the Department of Correction, and $3.2 million for the Department of Labor.

Future minimum lease commitments for operating leases as of June 30, 2010 are shown in the following table:

Lease Commitments
(Expressed in Thousands)

Year Ending June 30	Operating Leases
2011	$ 32,644
2012	27,242
2013	23,407
2014	17,615
2015	16,824
2016-2020	38,351
2021-2025	17,089
2026-2030	2,880
2031-2039	846
Total	$ 176,898

NOTE 9 OTHER LONG-TERM OBLIGATIONS

Compensated absences payable are reported in the government-wide financial statements and in the proprietary fund financial statements. They represent benefits accrued to State employees for vacation earned as of year-end and sick leave estimated to be paid out at retirement for services rendered as of June 30, 2010. Employees earn from 1.25 to 1.75 days of vacation leave per month depending on years of service. Employees or their estates are paid for unused vacation upon termination of employment. Employees earn 1.25 days of sick leave per month. The State's obligation for sick leave credit is a maximum of 45 workdays. $162.4 million has been accrued for the Governmental Activities and $14.2 million in the Business-type Activities for the total compensated absences liability. The current portion of the long-term obligation for compensated absences is $13.2 million in the Governmental Activities and $4.3 million in the Business-type Activities. Approximately $135.1 million (83.2%) of the long-term obligation for compensated absences will be liquidated by the General Fund. Of the remainder, approximately $10.5 million (6.5%) and $16.8 million (10.3%) will be paid with Federal Funds and Local School District Funds, respectively.

The State has recorded $75.0 million relating to the accrual of the obligation for escheated (abandoned) property of which $15.0 million was recorded as the current portion.

The State has incurred obligations relating to scholarship and physician loan repayment programs, resulting in an additional long-term obligation of $4.2 million, of which $1.4 million was recorded as the current portion.

NOTE 10 CHANGES IN LONG-TERM OBLIGATIONS

The following table provides a summary of changes in long-term obligations of the primary government for the year ended June 30, 2010:

Changes in Long-Term Obligations
Primary Government
(Expressed in Millions)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Net pension obligation (note 15)	$ 112.7	$ 12.8	$ (9.9)	$ 115.6	$ -
Other postemployment benefits	608.5	459.6	(162.0)	906.1	-
Compensated absences	146.6	27.6	(11.8)	162.4	13.2
Claims and judgments (notes 13 and 17)	120.4	41.6	(32.1)	129.9	32.3
Escheat payable	47.0	42.9	(14.9)	75.0	15.0
Notes payable	3.0	0.4	(3.2)	0.2	-
Pollution remediation obligations	16.5	9.9	(3.0)	23.4	5.5
Bonds payable:					
General obligation bonds	1,467.1	184.6	(155.8)	1,495.9	140.1
Bond issue premium, net of accumulated amortization	72.1	66.1	(10.3)	127.9	9.6
Physician and scholarship programs	4.5	1.0	(1.3)	4.2	1.4
Governmental Activities long-term liabilities	$ 2,598.4	$ 846.5	$ (404.3)	$ 3,040.6	$ 217.1
Business-type Activities:					
Other postemployment benefits	$ 53.9	$ 34.0	$ (7.2)	$ 80.7	$ -
Compensated absences	14.3	-	(0.1)	14.2	4.3
Claims and judgments (notes 13 and 17)	5.3	0.3	(2.4)	3.2	-
Pollution remediation obligations	2.9	-	(0.1)	2.8	2.0
Liabilities payable from restricted assets	5.6	2.1	(1.1)	6.6	3.2
Bonds payable:					
General obligation bonds	2.1	-	(0.7)	1.4	0.7
Revenue bonds	1,142.6	113.5	(76.4)	1,179.7	71.7
Bond issue premium, net of accumulated amortization	33.8	12.4	(6.4)	39.8	7.4
Business-type Activities long-term liabilities	$ 1,260.5	$ 162.3	$ (94.4)	$ 1,328.4	$ 89.3

Changes in long-term obligations for the component units are summarized below:

Changes in Long-Term Obligations
Component Units
(Expressed in Millions)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Delaware State Housing Authority					
Compensated absences	$ 0.9	$ 0.5	$ (0.4)	$ 1.0	$ -
Escrow deposits	28.4	0.9	-	29.3	-
Notes payable	0.3	0.9	(0.1)	1.1	1.0
Revenue bonds	993.5	190.2	(219.4)	964.3	168.5
Other long-term obligations	1.6	0.1	(0.4)	1.3	0.3
Total long-term obligations	$ 1,024.7	$ 192.6	$ (220.3)	$ 997.0	$ 169.8
Diamond State Port Corporation					
Notes and loans payable	$ 34.4	$ 0.7	$ (2.7)	$ 32.4	$ 1.5
Total long-term obligations	$ 34.4	$ 0.7	$ (2.7)	$ 32.4	$ 1.5
Riverfront Development Corporation					
Revenue bonds	$ 3.9	$ -	$ (0.3)	$ 3.6	$ 0.3
Long-term debt	14.1	6.0	(6.0)	14.1	5.0
Total long-term obligations	$ 18.0	$ 6.0	$ (6.3)	$ 17.7	$ 5.3
Delaware State University					
Revenue bonds	$ 56.1	$ -	$ (0.8)	$ 55.3	$ 0.8
Other long-term obligations	1.2	-	(0.3)	0.9	0.1
Total long-term obligations	$ 57.3	$ -	$ (1.1)	$ 56.2	$ 0.9
Delaware Charter Schools					
Compensated absences	$ 1.0	$ 0.1	$ (0.1)	$ 1.0	$ -
Notes payable	26.3	7.1	(0.5)	32.9	0.9
Revenue bonds	25.6	-	(6.5)	19.1	0.5
Long-term debt	12.1	-	(1.1)	11.0	2.0
Total long-term obligations	$ 65.0	$ 7.2	$ (8.2)	$ 64.0	$ 3.4

NOTE 11 NO COMMITMENT DEBT (NOT INCLUDED IN FINANCIAL STATEMENTS)

The State, by action of the General Assembly, created various authorities for the express purpose of providing private entities with an available low cost source of capital financing for construction of facilities deemed to be in the public interest. The bonds of the authorities represent limited obligations payable solely from payments made by the borrowing entities. The majority of the bonds are secured by the property financed. Upon repayment of a bond,

ownership of acquired property transfers to the entity served by the bond issuance. The State has no obligation for this debt. Accordingly, these bonds are not reflected in the accompanying financial statements. These bonds are issued through the Delaware Economic Development Authority and the Delaware Health Facilities Authority. The principal amount of bonds outstanding at June 30, 2010 for these entities amounted to $1,113.2 million and $540.4 million, respectively.

NOTE 12 CAPITAL ASSETS

(a) Primary Government

Capital asset activities for the fiscal year ended June 30, 2010 were as follows:

Capital Assets
(Expressed in Thousands)

Governmental Activities	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**
Capital Assets, not being depreciated				
Land	$ 456,328	$ 7,525	$ (36,357)	$ 427,496
Easements	166,715	89,938	-	256,653
Construction-in-progress	387,938	253,436	(241,530)	399,844
Total capital assets, not being depreciated	1,010,981	350,899	(277,887)	1,083,993
Capital assets, being depreciated				
Vehicles	74,490	5,400	(6,247)	73,643
Buildings	2,929,349	251,426	(19,574)	3,161,201
Equipment	92,219	4,013	(5,301)	90,931
Land Improvements	115,786	10,740	-	126,526
Total capital assets being depreciated	3,211,844	271,579	(31,122)	3,452,301
Less accumulated depreciation for:				
Vehicles	(58,905)	(3,583)	4,480	(58,008)
Buildings	(894,910)	(58,092)	7,118	(945,884)
Equipment	(67,735)	(5,627)	4,759	(68,603)
Land Improvements	(43,461)	(3,733)	-	(47,194)
Total accumulated depreciation	(1,065,011)	(71,035)	16,357	(1,119,689)
Total capital assets, being depreciated, net	2,146,833	200,544	(14,765)	2,332,612
Governmental activities capital assets, net	$ 3,157,814	$ 551,443	$ (292,652)	$ 3,416,605

Capital Assets
(Expressed in Thousands)

Business-type Activities Lottery	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**
Capital assets, being depreciated				
Computer equipment & software	$ 1,395	$ -	$ -	$ 1,395
Total capital assets being depreciated	1,395	-	-	1,395
Less accumulated depreciation	(1,391)	(2)	-	(1,393)
Total capital assets, being depreciated, net	$ 4	$ (2)	$ -	$ 2

Capital Assets
(Expressed in Thousands)

Business-type Activities DelDOT	**Beginning Balance**	**Increases**	**Decreases**	**Ending Balance**
Capital assets, not being depreciated				
Land	$ 249,775	$ 26,986	-	$ 276,761
Infrastructure	3,385,364	47,313	-	3,432,677
Total capital assets, not being depreciated	3,635,139	74,299	-	3,709,438
Capital assets, being depreciated				
Buildings & improvements	89,564	3,165	(1,663)	91,066
Furniture & equipment	220,629	21,813	(5,026)	237,416
Total capital assets being depreciated	310,193	24,978	(6,689)	328,482
Less accumulated depreciation for:				
Buildings & improvements	(23,696)	(2,443)	822	(25,317)
Furniture & equipment	(97,159)	(20,609)	4,631	(113,137)
Total accumulated depreciation	(120,855)	(23,052)	5,453	(138,454)
Total capital assets, being depreciated, net	189,338	1,926	(1,236)	190,028
Total capital assets	$ 3,824,477	$ 76,225	$ (1,236)	$ 3,899,466
Business-type activities capital assets, net	$ 3,824,477	$ 76,225	$ (1,236)	$ 3,899,466

Depreciation expense was charged to the following primary government functions as follows:

Depreciation Expense
(Expressed in Thousands)

Governmental activities:		
General government	$	11,548
Health and children's services		6,164
Judicial and public safety		10,959
Natural resources and environmental control		4,161
Labor		76
Education		38,127
Total depreciation expense - governmental activities	$	71,035
Business-type activities:		
DelDOT	$	23,053
Lottery		2
Total depreciation expense - business-type activities	$	23,055

(b) Component Units

Capital asset activities for the fiscal year ended June 30, 2010 were as follows:

Component Units
(Expressed in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance
Delaware State Housing Authority				
Capital assets, not being depreciated	$ 4,646	$ 861	(940)	$ 4,567
Capital assets, being depreciated	40,857	1,262	-	42,119
Accumulated depreciation	(24,773)	(1,706)		(26,479)
Total capital assets, net	$ 20,730	$ 417	$ (940)	$ 20,207
Diamond State Port Corporation				
Capital assets, not being depreciated	$ 34,494	$ 3,702	(1,811)	$ 36,385
Capital assets, being depreciated	179,895	3,700	-	183,595
Accumulated depreciation	(50,520)	(5,265)		(55,785)
Total capital assets, net	$ 163,869	$ 2,137	$ (1,811)	$ 164,195
Riverfront Development Corporation				
Capital assets, not being depreciated	$ 114,344	$ 2,980	(13,705)	$ 103,619
Capital assets, being depreciated	45,215	13,701	-	58,916
Accumulated depreciation	(29,261)	(4,632)	-	(33,893)
Total capital assets, net	$ 130,298	$ 12,049	$ (13,705)	$ 128,642
Delaware State University				
Capital assets, not being depreciated	$ 55,037	$ -	(38,061)	$ 16,976
Capital assets, being depreciated	188,275	103,157	-	291,432
Accumulated depreciation	(80,228)	(17,179)	-	(97,407)
Total capital assets, net	$ 163,084	$ 85,978	$ (38,061)	$ 211,001
Delaware Charter Schools				
Capital assets, not being depreciated	$ 19,273	$ 162	(14,234)	$ 5,201
Capital assets, being depreciated	60,016	17,403	-	77,419
Accumulated depreciation	(10,384)	(2,288)	24	(12,648)
Total capital assets, net	$ 68,905	$ 15,277	$ (14,210)	$ 69,972

NOTE 13 RISK MANAGEMENT

The State is exposed to various risks of losses related to workers' compensation, employee health-care and accident, automobile accident, police professional malpractice and property and casualty claims. It is the policy of the State not to purchase commercial insurance to cover these risks. Instead, State management believes it is more economical to manage its risk internally and thus, covers all claim settlements and judgments out of its general fund. The State continues to carry commercial insurance for all other risks of loss, including general liability and the remainder of the property and casualty liability. There have been no significant reductions in insurance coverage from prior years. In the past three years of insured coverage, settled claims have not exceeded commercial coverage.

Claim liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process does not result in an exact amount. Claim liabilities are reevaluated annually to take into consideration recently settled claims, the frequency of claims and other economic and social factors.

The management of the State estimates that the amount of actual or potential claims against the State at June 30, 2010, for workers' compensation, automobile accident and health-care claim liabilities is $162.6 million. The claim liabilities relating to health-care totaling $35.0 million have been recorded as accrued liabilities in governmental activities. The liability for workers' compensation and automobile accident liabilities totaling $127.7 million has been recorded in governmental activities as claims and judgments. The current portion of these claims totals $32.3 million. Other claim liabilities relating to police professional malpractice and property and casualty were not recorded at June 30, 2010 as the total of these liabilities were not material to the financial statements. Changes in the balances of claim liabilities during fiscal years 2010 and 2009 were as follows:

Changes in Claim Liabilities
(Expressed in Thousands)

Fiscal Year	Beginning Balance July 1	Current Year Claims and Changes in Estimates	Actual Claim Payments	Ending Balance June 30
2009	139,513	534,696	(521,705)	152,504
2010	152,504	559,788	(549,702)	162,590

DelDOT

The Delaware Transit Corporation (DTC) maintains coverage on auto and worker's compensation insurance through both the retention of risk and the purchase of commercial insurance. The DTC has recorded $6.4 million of claim liabilities as claims and judgments. Of this amount, $3.2 million has been recorded as current.

NOTE 14 OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description

On July 1, 2007, the Delaware OPEB Fund Trust (OPEB Trust) was established pursuant to Section 115 of the Internal Revenue Code and separate from the DPERS. The OPEB Trust is administered by the DPERS Board of Directors. Policy for and management of the OPEB benefits provided to retirees are the responsibility of the State. No stand-alone financial report is issued for the OPEB Trust.

The OPEB Trust is a single-employer defined benefit plan. The OPEB Trust provides retirement medical coverage to pensioners and their eligible dependents in the State Employees', Judiciary, New State Police, and Closed State Police pension plans. The State of Delaware has elected to assume the OPEB liability on behalf of employees who participate in the State's pension plan but are employed at outside agencies including Delaware State University, University of Delaware, Delaware State Housing Authority, Delaware Charter Schools and Delaware Solid Waste Authority. Due to this assumption, the State is a single employer defined benefit plan.

Membership of the plan consisted of the following at June 30, 2010:

Retirees and beneficiaries receiving benefits	19,103
Terminated plan members entitled to but not yet receiving the benefits	1,809
Active eligible plan members	35,926
Total	56,838

Substantially all State employees become eligible for post retirement benefits if they reach retirement age while working for the State. The costs of providing these benefits are shared between the State and the retired employee. The plan provisions are as follows:

Eligibility:

State Employees:

Early Retirement:

Age 55 with 15 years of service or any age with 25 years of service

Normal Retirement:

Age 62 with 5 years of service or age 60 with 15 years of service or any age with 30 years of service

Benefits:

During the fiscal year ended June 30, 2010, the State provided health insurance options through several providers.

Spouse and Survivor Coverage:

Both are available under any of the plan options with similar retiree contributions.

Employee Contributions:

If hired prior to July 1, 1991, no contributions are required. If hired on or after July 1, 1991 (except disability pension), contributions depend on years of service.

Retiree Contributions (hired on or after 07/01/1991):

Years of Service	Percent of Premium Paid by State
Less than 10	0%
10 - 14	50%
15 - 19	75%
20 or more	100%

Funding Policy

The State of Delaware funds the OPEB for current retirees on a pay-as-you-go basis along with funding for future benefits at a rate that is approved in the annual budget, but not actuarially determined. Additional funding has also been provided on an ad hoc basis. By State Statute Chapter 52, Title 29 of the Delaware Code, contribution requirements of plan members and the government are established and may be amended by the State Legislature. Funds are recorded in the OPEB Trust for the payment of retiree health care claims and administrative and investment expenses. Administrative costs are financed through investment earnings. State appropriations, other employer contributions, and retiree contributions for health care are recorded in the OPEB Trust. The funds available are invested under the management of the DPERS Board of Pension Trustees, which acts as the Board of Trustees for the OPEB Trust and is responsible for the financial management of the trust.

Contributions

The contribution rates for the employer and retiree are established annually by the budgeting process of the State. Those rates include an employer contribution based on projected pay-as-you-go financing requirements as a percent of covered payroll, with an additional amount to prefund benefits, which is not actuarially determined. The State contributed $10.0 million in fiscal year 2010. For fiscal year 2010, the State contribution in relation to the annual required contribution (ARC) totaled $171.5 million.

Retiree contribution rates are affected by the retiree date of hire, with eligible retirees hired after June 30, 1991 paying a proportionately higher rate if their years of service total less than 20. Retiree contributions for health coverage totaled $5.6 million.

Annual OPEB Cost and Net OPEB Obligation

The State's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of thirty years. Amounts "required" but not actually set aside to pay for these benefits are accumulated as part of the net OPEB obligations. The following table shows the components of the State's annual OPEB for fiscal year 2010 and the preceding fiscal year, the amount actually contributed to the plan, and the State's net OPEB obligation (dollar amounts in millions):

	Total	Governmental Activities	Business-Type Activities *
Net OPEB obligation at June 30, 2008	$ 291.5	$ 265.6	$ 25.9
Annual required contribution	527.9	491.7	36.2
Adjustment to annual required contribution	2.8	2.7	0.1
Annual OPEB Cost	822.2	760.0	62.2
Employer contributions	(159.8)	(151.5)	(8.3)
Net OPEB obligation at June 30, 2009	$ 662.4	$ 608.5	$ 53.9

	Total	Governmental Activities	Business-Type Activities *
Net OPEB obligation at June 30, 2009	662.4	$ 608.5	$ 53.9
Annual required contribution	498.3	459.6	38.7
Adjustment to annual required contribution	0.9	-	0.9
Annual OPEB Cost	1,161.6	1,068.1	93.5
Employer contributions	(174.7)	(162.0)	(12.7)
Net OPEB obligation at June 30, 2010	$ 986.9	$ 906.1	$ 80.8

* This column includes DTC's OPEB activity.

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2010 and preceding fiscal year are as follows (dollar amounts in millions):

Ended June 30	OPEB Cost	Annual OPEB Cost Contributed	OPEB Obligation
2009	516.2	31%	641.5
2010	480.0	36%	956.5

Funded Status and Funding Progress

As of June 30, 2010, the plan was 1.8% funded. The actuarial accrued liability for benefits was $5,884.0 million, and the actuarial value of assets was $104.0 million, resulting in an unfunded

actuarial accrued liability (UAAL) of $5,780.0 million for the primary government. The covered payroll (annual payroll of active employees covered by the plan) was $1,798.0 million, and the ratio of the UAAL to the covered payroll was 321%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. This schedule will be expanded in future years to provide multi-year trend data.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the OPEB plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2010, actuarial valuation, the entry age normal actuarial cost method was used. Investments are valued at market rates. The actuarial assumptions included a 5.0% investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the State's own investments calculated based on the funded level of the plan at the valuation date, and an initial medical inflation rate of 9.0% with an ultimate rate of 5.0%. The UAAL is being amortized as a level percentage of projected payroll on a level percent open basis over 30 years using a 3.75% rate of salary increase.

Delaware Transit Corporation (DTC)

In June 2010, the Delaware Transit Corporation OPEB Fund Trust (the DTC OPEB Trust) was established pursuant to Section 115 of the Internal Revenue Code. The DTC OPEB Trust is administered by DTC. Policy for and management of the OPEB benefits provided to retirees are the responsibility of DTC. No stand-alone financial report is issued for the DTC OPEB Trust.

Plan Description

DTC provides continuation of medical insurance coverage to employees that retire. Based on collective bargaining agreements, any full-time employee is eligible to participate in the plan if the employee retires after meeting the eligibility requirements, which are: 1) age 65 with 5 years of service or after working for 25 years for contract employees or 2) age 55 with 10 years of

service or age 62 with five years of service for noncontract employees. Disabled employees must reach eligibility. Surviving spouses of participants are allowed access to the plan and receive the same subsidy as retirees.

DTC subsidizes the medical premium. The subsidized percentage is 90% of published rates for retirees less than age 65 and 100% for retirees age 65 or greater. DTC subsidizes 100% of the dental and vision coverage for noncontract employees. Contract employees are allowed to access to dental and vision coverage, but must pay the full premium.

Life insurance is provided to retirees. Retirees under age 70 receive $6,000 in coverage. Once the participant reaches age 70, the coverage drops to $5,000. Each participant must contribute $0.25 per month per $1,000 of coverage to receive the benefit.

The number of participants are 722 active employees and 79 retirees as of June 30, 2010, the effective date of the other post-employment benefit (OPEB) actuarial valuation report.

Funding Policy

DTC currently pays for post-employment health care benefits on a pay-as-you-go basis. Although DTC is studying the establishment of a trust that would be used to accumulate and invest assets necessary to pay the accumulated liability, these financial statements assume that the pay-as-you-go funding will continue. The cash basis costs associated with these benefits were $865,354 and $803,627 for the fiscal years ended June 30, 2010 and 2009 respectively.

Annual OPEB Cost and Net Obligation

DTC's annual OPEB cost (expense) is calculated based upon the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with GAAP. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of DTC's OPEB cost for the year, the amount actually contributed to the plan, and changes to DTC's net OPEB obligation (expressed in thousands):

Annual required contribution	$	11,677
Interest on net OPEB obligation		996
Adjustment to annual required contribution		(863)
Annual OPEB cost (expense)		11,810
Contributions made		(2,365)
Increase in net OPEB obligation		9,445
Net OPEB obligation - beginning of year		20,941
Net OPEB obligation - end of year	$	30,386

DTC's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation is as follows (expressed in thousands):

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	11,702	6.87%	20,941
2010	11,810	20.02%	30,386

Funded Status and Funding Progress

As of June 30, 2010, the plan was 1.80% funded. The actuarial accrued liability was $82.6 million which is equivalent to the unfunded actuarial accrued liability. The covered payroll (annual payroll of active employees covered by the plan) was $31.4 million and the ratio of the UAAL to the covered payroll was 38%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the April 1, 2010 actuarial valuation, the projected unit credit method was used with linear pro-ration to assumed benefit commencement. The actuarial assumptions included a 4.75% investment rate of return, 4% payroll growth rate, a 3.2% inflation rate, and a healthcare cost trend rate of 8% initially, reduced be decrements to 6.9% after 10 years. The ultimate healthcare cost trend rate will remain constant at 5.2% after 2080. The unfunded liability is being amortized as a level percentage of payroll over a 30-year amortization period.

NOTE 15 PENSIONS

Primary Government

Pension Plans

The State Board of Pension Trustees (Board) administers the following plans/funds (the Plans) of the Delaware Public Employees' Retirement System (DPERS) as described below:

- State Employees' Pension Plan;
- Special Fund;
- New State Police Pension Plan;
- Judiciary Pension Plans (Closed and Revised);
- County & Municipal Police and Firefighters' Pension Plans;
- County & Municipal Other Employees' Pension Plan;
- Delaware Volunteer Firemen's Fund;
- Diamond State Port Corporation Pension Plan; and
- Closed State Police Pension Plan.

With the exception of the Diamond State Port Corporation Pension Plan, the State's General Assembly is responsible for setting benefits and contributions and amending plan provisions; administrative rules and regulations are adopted and maintained by the Board. The Board of Directors for the Diamond State Port Corporation is responsible for setting benefits and contributions and amending their plan provisions.

The Plans of DPERS are considered part of the State's financial reporting entity and are included in the accompanying financial statements as pension trust funds in the fiduciary funds. All of the investment assets of the plans and funds, with the exception of the Closed State Police Pension Plan and the Delaware Volunteer Firemen's Fund, are pooled and invested in a common DPERS Master Trust (Master Trust). Each of the plans or funds share in the Master Trust based on funds contributed and earnings or losses allocated. Individual investments in the Master Trust are not specifically identified to the various plans or funds.

Additionally, the following non-DPERS retirements funds/plans, described below, have been established under the custody of the Board for investment purposes only:

- County & Municipal Police and Firefighters' COLA Fund;
- Post-Retirement Increase Fund;
- Delaware Local Government Retirement Investment Pool.

The Delaware Local Government Retirement Investment Pool (DELRIP) is presented separately as investment trust funds in the fiduciary funds statement of net assets and statement of changes in net assets. The remaining non-DPERS retirement funds/plans are included in the pension trust fund.

Non-DPERS Fund Descriptions and Contributions

County & Municipal Police and Firefighters' COLA Fund

During 1990, the State passed legislation which established a mechanism for funding post-retirement increases granted by employers who participate in the County & Municipal Police and Firefighters' Pension Plans. This mechanism allows the State to appropriate funds separate to a cost of living adjustment fund (COLA Fund) managed by the Board. The funds are generated by a 0.25% tax on the value of insurance premiums written within the State. The proceeds of the tax are transferred to the State and local governments on a per member basis. In 1994, the New State Police Plan began receiving funding for post-retirement increases from the Post-Retirement Increase Fund. Since that time, funds calculated for the State Police membership were re-directed into the COLA Fund. In accordance with Section 708 (c), Title 18 of the Delaware Code, when a participating employer grants a post-retirement increase for a plan outside of the DPERS County & Municipal Plans, funds are transferred from the COLA Fund to the employer. The participating employer must provide funds to match the State's contribution. Allocated funds that are unused will be reverted to the State General Fund.

Post-Retirement Increase Fund (PRI)

The State passed legislation which established a mechanism for funding ad hoc post-retirement increases granted by the General Assembly to members retired under the State Employees' Plan, the New State Police Plan, and the Judiciary Plans (Closed and Revised) beginning in fiscal year 1994. The mechanism allows the State to appropriate actuarially determined employer contributions to a separate PRI fund managed by the Board. The actuary uses the current actuarial assumptions, methods, and population data to calculate the estimated additional liability resulting from the potential benefit increases. When the Legislature grants an ad hoc post-retirement adjustment, funds are transferred from this PRI fund on a monthly basis based on a five-year actuarial funding schedule to the appropriate pension plan from which the additional benefits are disbursed. For the fiscal year ended June 30, 2010, $26.5 million was transferred to the appropriate plans in DPERS.

No post-retirement increase was granted by the General Assembly in Fiscal years 2008, 2009 and 2010. As of June 30, 2010, previously granted post-retirement increases have outstanding liabilities totaling $13.8 million, which will be funded by the State and transferred to the appropriate plans over the remaining fiscal year as follows:

Fiscal Year	(Expressed in Thousands)
2011	13,825
Total	$ 13,825

The Board adopts actuarially determined funding for the Post-Retirement Increase Fund. Funding for fiscal year 2010 was 1.4% of covered payroll. Funding for fiscal year 2011 will be 0.81%.

Local Government Retirement Investment Pool (DELRIP)

In June 1996, the State established DELRIP in the custody of the Board to allow local governments the option to pool their pension assets with the System for investment purposes. The DELRIP is an external investment pool that allows local governments within the State to potentially maximize their rate of return and reduce administrative expenses related to the investment of funds. Participation in the pool is voluntary. There were three participating entities in DELRIP as of June 30, 2010, which comprise the pool in its entirety: Sussex County and the Towns of Elsmere and Newport.

DELRIP is subject to the oversight of the System's Investment Committee and not subject to the regulatory oversight of the Securities and Exchange Commission (SEC). The System has not provided or obtained any legally binding guarantees during the year to support the value of shares. The fair value of the shares in the pool is determined in the same manner as the value of the Master Trust shares. Since this pool is a portion of the total System, the same accounting and investment policies apply.

Plan Membership, Benefit and Contribution Provisions

A description of the individual plans including eligibility provisions, types of benefits and contribution requirements are set forth in general terms below and on the following pages. Detailed information regarding these plans is available in the Delaware Code and in the Rules and Regulations of the Board.

State Employees' Pension Plan

Plan Description and Eligibility:

The State Employees' Pension Plan is a cost-sharing single employer defined benefit plan that covers virtually all full-time or regular part-time employees of the State, including employees of other affiliated entities.

Service Benefits: Final average monthly compensation multiplied by 2.0% and multiplied by years of credited service prior to January 1, 1997, plus final average compensation multiplied by 1.85% and multiplied by years of credited service after December 31, 1996, subject to minimum limitations. For this plan, final average monthly compensation is the monthly average of the highest three years of compensation.

Vesting: 5 years of credited service.

Retirement: Age 62 with 5 years of credited service; age 60 with 15 years of credited service; or after 30 years of credited service at any age.

Disability Benefits: Same as Service Benefits. Employee must have 5 years of credited service. In lieu of disability pension benefits, over 90% of the members of this plan opted into a disability insurance program offered by the State effective January 1, 2006.

Survivor Benefits: If employee is receiving a pension, the eligible survivor receives 50% of pension (or 75% with 3% reduction of benefit); if employee is active with at least 5 years of credited service, eligible survivor receives 75% of the benefit the employee would have received at age 62.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member - 3% of earnings in excess of $6,000.

Burial Benefit: $7,000 per member.

Special Fund

Plan Description and Eligibility:

The Special Fund provides certain benefits granted to individuals through legislation passed by the General Assembly.

Service Benefits: Defined by special legislation.

Vesting: Defined by special legislation.

Retirement: Defined by special legislation.

Disability Benefits: Defined by special legislation.

Survivor Benefits: Same as State Employees' Plan.

Contributions: Employer contributions are actuarially determined and fully funded in advance by the General Assembly.

Burial Benefit: $7,000 per member.

New State Police Pension Plan

Plan Description and Eligibility:

The New State Police Pension Plan is a single-employer defined benefit plan that covers all State police officers appointed on or after July 1, 1980.

Service Benefits*:* 2.5% of final average monthly compensation multiplied by years of credited service up to 20 years, plus 3.5% of final average monthly compensation multiplied by years of service in excess of 20 years. For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: 10 years of credited service at age 62.

Retirement: Age 55 with 10 years of credited service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

Disability Benefits: Duty – *Total Disability* - 75% of final average compensation plus 10% for each dependent not to exceed 25% for all dependents. *Partial Disability* - calculated the same as Service Benefits, subject to minimum 50% of final average compensation.

Non-Duty – same as Service Benefits.

Survivor Benefits: If employee is receiving a pension, the eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 75% of compensation.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member - 7% of compensation.

Burial Benefit: $7,000 per member.

Judiciary Pension Plans (Closed and Revised)

Plan Description and Eligibility:

The Closed Judiciary Pension Plan is a single-employer defined benefit plan that covers members of State Judiciary appointed before July 1, 1980.

The Revised Judiciary Pension Plan is a single-employer defined benefit plan that covers members of State Judiciary appointed on or after July 1, 1980 or members appointed before July 1, 1980 who accept the provisions of this Plan.

Assets of one plan can be used to satisfy the liabilities of the other plan.

Service Benefits:

Closed - 3% of final average compensation multiplied by years of credited service, subject to maximum and minimum limitations

Revised - 1/24th of final average monthly compensation multiplied by years of service up to 12 years, plus 1/48th of final average monthly compensation, multiplied by years of service from 13 to 24 years, subject to maximum limitations.
For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: 12 years of credited service.

Retirement:

Closed - Age 65 with 12 years of credited service, or any age with 24 years of credited service.

Revised - Age 62 with 12 years of credited service, or any age with 24 years of credited service.

Disability Benefits: Same as Service Benefits.

Survivor Benefits:

Closed - If employee is receiving a pension, the eligible survivor receives 2/3 of pension; if employee is active with 12 years of credited service, then eligible survivor receives 2/3 of pension the employee would have been eligible to receive.

Revised - If employee is receiving a pension, the eligible survivor receives 50% of pension (or 2/3 with 2% reduction of benefit); if employee is active with at least 5 years of credited service, eligible survivor receives 2/3 of the benefit the employee would have received at age 62.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member:
  Closed - $500 per year for the first 25 years of service.
  Revised - 3% of earnings that exceed $6,000 per year, plus 2% of earnings that exceed the Social Security Wage Base for the first 24 years of service.

Burial Benefit: Not applicable.

County & Municipal Police and Firefighters' Pension Plans

Plan Description and Eligibility:

County & Municipal Police and Firefighters' Pension Plans, both FICA and Non-FICA, are cost-sharing multiple-employer defined benefit plans that cover police officers and firefighters employed by a county or municipality of the State which has become part of the Plan.

Service Benefits: 2.5% of final average monthly compensation multiplied by years of credited service up to 20 years, plus 3.5% of final average monthly compensation multiplied by years of service in excess of 20 years. For this plan, final average monthly compensation is the monthly average of the highest three consecutive years of compensation.

Vesting: 5 years of credited service.

Retirement: Age 62 with 5 years of service; age plus credited service (but not less than 10 years) equals 75; or 20 years of credited service.

Disability Benefits:

Duty - *Total Disability* - 75% of final average compensation plus 10% for each dependent not to exceed 25% for all dependents;
Partial Disability - calculated the same as Service Benefits, subject to minimum 50% of final average compensation.

Non-Duty - Same as Service Benefits.

Survivor Benefits: If employee is receiving a pension, then eligible survivor receives 50% of pension; if employee is active, eligible survivor receives 50% of pension the employee would have received at age 62.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member - 7% of compensation.

Burial Benefit: Not applicable.

County and Municipal Other Employees' Pension Plan

Plan Description and Eligibility:

County and Municipal Other Employees' Pension Plan is a cost-sharing multiple employer defined benefit plan that covers employees of counties or municipalities which have become part of the Plan.

Service Benefits: 1/60th of final average monthly compensation multiplied by years of credited service, subject to maximum limitations. For this plan, final average monthly compensation is the monthly average of the highest five years of compensation.

Vesting: 5 years of credited service.

Retirement: Age 62 with 5 years of credited service, age 60 with 15 years of credited service; or after 30 years of credited service.

Disability Benefits: Same as Service Benefits. Employee must have 5 years of credited service.

Survivor Benefits: If employee is receiving a pension, then eligible survivor receives 50% of pension; if the employee is active, eligible survivor receives 50% of pension the employee would have received at age 62.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member - 3% of earnings in excess of $6,000.

Burial Benefit: Not applicable.

Delaware Volunteer Firemen's Fund

Plan Description and Eligibility:

The Delaware Volunteer Firemen's Fund is a cost-sharing length of service award plan that covers all actively participating volunteers of fire departments, ladies auxiliaries, or ambulance organizations within the State.

Service Benefits: $5 multiplied by years of credited service (not to exceed 25 years) per month.

Vesting: 10 years of credited service.

Retirement: Age 60 with 10 years credited service.

Disability Benefits: Not applicable.

Survivor Benefits: Not applicable.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member - $60 per member per calendar year.

Burial Benefit: Not applicable.

Diamond State Port Corporation Pension Plan

Plan Description and Eligibility:

The Diamond State Port Corporation Pension Plan is a single-employer defined benefit plan which covers all employees of the Diamond State Port Corporation.

Service Benefits: 1.75% of final average monthly compensation multiplied by the years of credited service (not to exceed 30 years). For this plan, final average monthly compensation is the monthly average of the highest consecutive five years of compensation within the last ten years of employment.

Vesting: 5 years of credited service.

Retirement: Age 65 with 5 years of credited service, or age (not less than 55 years) plus credited service equals 90.

Disability Benefits: Same as Service Benefits. Employee must have 15 years of credited service.

Survivor Benefits: If employee is receiving a pension, the eligible survivor receives 50% of pension; if employee is active with at least 15 years of credited service, then eligible survivor receives 50% of pension the employee would have received at age 65.

Contributions:

- Employer - Determined by Board of Pension Trustees.
- Member - 2% of compensation.

Burial Benefit: Not applicable.

Closed State Police Pension Plan

Plan Description and Eligibility:

The Closed State Police Pension Plan is a single-employer defined benefit plan that covers all State police officers appointed before July 1, 1980.

Service Benefits: 50% of monthly salary.

Vested/Retirement: 20 years of credited service or age 55.

Disability Benefits: Duty - 75% of monthly salary.
Non-Duty – Same as Service Benefits.

Survivor Benefits: If employee is active or is receiving a service or service-related disability pension, the eligible survivor receives 75% of pension; if employee is receiving a non-service related disability pension; eligible survivor receives 50% of pension.

Contributions:

- Employer - Funded on a pay-as-you-go basis.
- Member - 5% of salary with 20 years or less of credited service; 2% of salary with over 20 years credited service.

Burial Benefit: $7,000 per member.

Historical Trend Information

Historical trend information for the current year and the preceding five years designed to provide information about progress made by the individual plans in accumulating sufficient assets to pay benefits when due is presented in the separately issued financial report of the DPERS.

The DPERS issues a publicly available financial report that includes financial statements and required supplementary information for each of the individual plans and funds identified above. The financial report may be obtained by writing to the State Board of Pension Trustees and Office of Pensions, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, Delaware 19904-2402.

NET PENSION OBLIGATION (NPO)

The Annual Pension Cost (APC) and Net Pension Obligation (NPO) for the Closed State Police Pension Plan for the fiscal years ended June 30, 2010, 2009, and 2008 are as follows:

Net Pension Obligation (NPO)
(Expressed in Thousands)

	Fiscal Year Ended June 30, 2010	Fiscal Year Ended June 30, 2009	Fiscal Year Ended June 30, 2008
Annual Required Contribution	$ 27,214	$ 26,423	$ 26,017
Interest on Net Pension Obligation	9,012	8,706	8,380
Adjustment to Annual Required Contribution	(9,942)	(9,504)	(9,060)
Annual Pension Cost	26,284	25,625	25,337
Less Contributions Made	(23,367)	(21,796)	(21,269)
Increase in Net Pension Obligation	2,917	3,829	4,068
Net Pension Obligation, Beginning of Year	112,652	108,823	104,755
Net Pension Obligation, End of Year	$ 115,569	$ 112,652	$ 108,823

Three-Year Trend Information
(Expressed in Thousands)

	Plan Year Ended	Contribution Made	Annual Pension Cost (APC)	Percent Of APC Contributed	Net Pension Obligation
State Employees'	6/30/2010	$ 101,457	$ 101,457	100.00%	$ -
	6/30/2009	96,576	96,576	100.00%	-
	6/30/2008	101,660	101,660	100.00%	-
County & Municpal Police and Firefighters'	6/30/2010	$ 7,307	$ 7,307	100.00%	$ -
	6/30/2009	12,007	12,007	100.00%	-
	6/30/2008	6,246	6,246	100.00%	-
County & Municpal Other Employees'	6/30/2010	$ 1,276	$ 1,276	100.00%	$ -
	6/30/2009	2,293	2,293	100.00%	-
	6/30/2008	1,492	1,492	100.00%	-
Delaware Volunteer Firemen's	6/30/2010	$ 1,191	$ 1,703	69.94%	$ 2,884
	6/30/2009	1,108	1,604	69.10%	2,428
	6/30/2008	1,045	1,553	67.29%	1,682
Judiciary	6/30/2010	$ 2,473	$ 2,473	100.00%	$ -
	6/30/2009	2,549	2,549	100.00%	-
	6/30/2008	2,644	2,644	100.00%	-
New State Police	6/30/2010	$ 6,562	$ 6,562	100.00%	$ -
	6/30/2009	6,791	6,791	100.00%	-
	6/30/2008	6,643	6,643	100.00%	-
Closed State Police	6/30/2010	$ 23,367	$ 27,214	85.86%	$ 115,569
	6/30/2009	21,775	26,423	82.41%	112,652
	6/30/2008	21,267	25,337	83.94%	108,823
Diamond State Port Corporation	6/30/2010	$ 594	$ 594	100.00%	$ -
	6/30/2009	694	694	100.00%	-
	6/30/2008	715	715	100.00%	-

Delaware Transportation Authority

Generally, employees of the Expressways Operations/Toll Administration are covered under DPERS. The Delaware Transit Corporation (DTC), a subsidiary public corporation of the Delaware Transportation Authority, contributes to two single-employer defined benefit plans consisting of the Contributory Pension Plan and the Delaware Transit Corporation (DTC) Pension Plan. Each plan provides retirement, disability and death benefits to plan members and beneficiaries. Each plan issues a publicly available financial report that includes financial statements and required supplementary information. Financial data for these plans has not been included in the fiduciary statements due to immateriality.

The trustees of each plan establish and may amend the contribution requirements of plan members and DTC. The most recent information available for DTC's annual pension cost and related information for each plan as well as information concerning funding policies and annual pension costs may be found in the Required Supplementary Information on pages 122 - 134.

Annual pension cost is equal to the respective plans required and actual contributions.

Three-Year Trend Information
(Expressed in Dollars)

	Plan Year Ended	Contribution Made	Annual Pension Cost	Percent Of APC Contributed	Net Pension Asset
DTC Pension Plan	6/30/2010	$ 1,033,487	$ 1,033,998	99.95%	$ (109,288)
	6/30/2009	800,128	940,741	85.05%	(108,777)
	6/30/2008	800,040	768,204	104.14%	31,836
Contributory Pension	12/31/2009	$ 1,063,098	$ 674,249	157.67%	$ 2,167,594
	12/31/2008	996,405	632,751	157.47%	1,778,745
	12/31/2007	879,154	440,338	199.65%	1,415,091

Deferred Compensation Plan

The State offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all State of Delaware employees, permits them to defer a portion of their salary to future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

NOTE 16 AFFILIATED ORGANIZATIONS

State Lottery

Multi-State Lottery Association

The State Lottery is a member of the Multi-State Lottery Association (MUSL), which operates online games on behalf of participating state lotteries. Each MUSL member sells game tickets through its agents and makes weekly wire transfers to the MUSL in an amount equivalent to the member's share of the estimated grand prize liability. Each MUSL member pays lesser prizes directly to the winners. The MUSL operates the Powerball games, as well as the Powerplay feature associated with Powerball. The MUSL also operates the Hot Lotto game, in which the Lottery began participating during fiscal year 2008. Participating lotteries are required to maintain deposits with MUSL for contingency reserves to protect MUSL from unforeseen prize liabilities. The money in this reserve fund is refundable to MUSL members if the MUSL disbands or if a member leaves the MUSL Board.

The amount the Lottery had on deposit with MUSL as of June 30, 2010, was $2.3 million. This amount is reported by the Lottery as a liability on its balance sheet because it represents the amount to be paid to the State upon separation from the MUSL if the MUSL is not required to use a portion of the Lottery's reserves held by the MUSL.

Complete separate financial statements for the MUSL may be obtained at the Multi-State Lottery Association, Suite 210, 1701 48th Street, West Des Moines, IA 50266-6723.

NOTE 17 COMMITMENTS

Primary Government

The State has entered into various contractual commitments that contracts for services and for construction of various highway, capital, and lottery projects. These commitments are expected to be funded from existing program resources, current and future appropriations and from the proceeds of revenue and general obligation bonds to be issued. Commitments of the governmental funds totaling $325.7 million are shown on the balance sheet as encumbrances. Commitments of the proprietary fund include $280.7 million for DelDOT.

Component Units

Diamond State Port Corporation (DSPC)

DSPC has various contracts for construction and renovation of significant facilities in accordance with the Capital Budget approved by its Board of Directors. As of June 20, 2010, DSPC had $15.0 million in cash and investments committed to capital projects.

Riverfront Development Corporation (RDC)

The RDC has an outstanding letter of credit in the amount of approximately $4.0 million which expires on November 2012. RDC is required to maintain a letter of credit sufficient to redeem the aggregate outstanding principal amount of the bonds payable plus 39 days of interest. The letter of credit is secured by certain real property owned by RDC and assignment of the lease between RDC and National Railroad Passenger Corporation.

NOTE 18 CONTINGENCIES

Primary Government

Various parties have made claims against the State. For those cases in which it is reasonably possible that a loss will be incurred and in which the amount of the potential judgment can be reasonably estimated, the State estimates the liability to be $3.7 million. The State recognized $2.2 million in governmental activities as claims and judgments liabilities for pending litigation settlements estimated to be probable as of June 30, 2010. In the opinion of the Attorney General of the State, however, the remaining cases are either subject to a valid defense or are not expected to result in an impairment of the State's financial position. Management believes the settlement in aggregate of claims outstanding will not result in amounts material to the financial statements of the State.

The State receives significant financial assistance from the federal government in the form of grants and entitlements. The right to these resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the State. The State does not believe that the liabilities that may result from such audits for periods through June 30, 2010 would have a material effect on its financial position or the results of operations.

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* provides guidance for state and local governments in estimating and reporting the potential costs of pollution remediation. While GASB Statement No. 49 does not require the State to search for pollution, it does require the State to reasonable estimate and report a remediation liability when any of the following obligating events has occurred:

- Pollution poses an imminent danger to the public and the State is compelled to take action;
- The State is in violation of a pollution related permit or license;
- The State is named or has evidence that it will be named as responsible party by a regulator;
- The State is named or has evidence that it will be named in a lawsuit to enforce a cleanup; or
- The State commences or legally obligates itself to conduct remediation activities.

Site investigation, planning and design, cleanup and site monitoring are typical remediation activities underway across the State. Several State organizations have dedicated programs, rules and regulations that routinely deal with remediation related issues; others become aware of pollution conditions in the fulfillment of their missions. The State has the knowledge and expertise to estimate the remediation obligations presented herein based upon prior experience in identifying and funding similar remediation activities. The standard requires the State to calculate pollution remediation liabilities using the expected cash flow technique. Where the State cannot reasonably estimate a pollution remediation obligation, it does not report a liability; however, the State has not identified any of these situations.

The remediation obligation estimates that appear in this report are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the State's obligation. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

During fiscal year 2010, the State acquired property from an automobile manufacturer. This property will be used by the University of Delaware. This property was not able to be fully tested to determine an estimate of the pollution.

At June 30, 2010, the State had a total pollution remediation liability of $23.4 million, with an estimated potential recovery of $4.5 million from the U.S. Environmental Protection Agency.

The State Lottery has discharged its primary responsibility for payment of annual installments (generally 14 to 20 years) to winners of jackpots greater than $150,000 by purchasing annuities from private insurance companies. The Lottery remains liable for future periodic payments of deferred prize obligations (approximately $2 million at June 30, 2010) in the event that the annuity issuers default on their obligations.

Component Units

DSHA has amounts received or receivable from grant agencies that are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although DSHA expects such amounts, if any, to be immaterial.

NOTE 19 SUBSEQUENT EVENTS

Primary Government

On October 28, 2010, the State issued $310.7 million of its general obligation bonds maturing between July 1, 2011 and July 1, 2030. The bonds consist of Series 2010B, $135.3 million traditional tax-exempt bonds, Series 2010C, $115.8 million federally taxable Build America Bonds, and Series 2010D, $59.6 million federally taxable Qualified School Construction Bonds.

Series 2010B bonds included $51.1 million in principal issued to refund higher priced bonds resulting in a net present value savings of $3.4 million, or 6.3% of the principal refunded. The refunding bonds, together with $84.3 million issued for new projects, were sold to retail and institutional investors, will mature between July 2011 and July 2024 and bore coupons between 2% and 5%. The Series 2010C and 2010D bonds, which were designated as Build America Bonds and Qualified School Construction Bonds for the purposes of the American Recovery and Reinvestment Act of 2009, are federally taxable bonds. As such, the State will elect to receive a cash subsidy from the U.S. Treasury of 35% of the interest payable on the Series 2010C bonds and a cash subsidy of 100% of the interest payable on the Series 2010D bonds. The coupons on the taxable bonds ranged from 3.1% to 4.6% and matured between July 2019 and July 2030.

The proceeds from the new money general obligation bonds, a total of $259.6 million, will be used to provide funds for capital projects across the State.

Component Units

Riverfront Development Corporation (RDC)

The RDC and the State of Delaware had filed a claim against BP Products of North America for additional environmental remediation cost s that were incurred for land formerly owned by RDC, due to unanticipated conditions discovered at the site. The claim has been settled, and RDC's share of the claims is approximately $0.6 million. These amounts are expected to be received in October, 2010.

Delaware State Housing Authority (DSHA)

As of September 28, 2010, the Authority has borrowed an additional $40,020,473 from FHLB Pittsburgh. This additional borrowing was used for the purchase of mortgage backed securities and will be repaid with the proceeds of a bond issue expected to occur in the near future.

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Required Supplementary Information Section

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY REPORTING

BUDGETARY BASIS VS. GAAP

While GAAP requires the use of the fund structure described in Note 1(b), the State's budget system uses only a general fund and a special fund, each of which uses the basis of accounting described below. Additionally, the activities of certain component units of the State, which are not substantially supported by tax revenues, are not included in the budget data. Reconciliation of the accrual adjustments necessary to convert budgetary basis information to GAAP basis is presented in Required Supplementary Information.

The State Constitution requires the Governor to prepare and submit to the General Assembly a State budget for the ensuing year. The State budgets and controls its financial activities on the cash basis of accounting. In compliance with State law, the State records its financial transactions in either of two major categories – the general fund or the special fund. References to these two funds in this document include the terms "budgetary" or "budgetary basis" to differentiate them from the GAAP funds of the same name which encompass different funding categories. The General Assembly enacts the budget through the passage of specific line-item appropriations by department, the legal level of budgetary control, the sum of which must not exceed 98 percent of the estimated revenues and available unencumbered cash balance from the prior year pursuant to the State Constitution. The Governor has the power to approve or veto each appropriation passed by the General Assembly. The General Assembly may also enact supplement appropriation or special appropriation bills after it completes action on the State's budget.

The budgetary general fund provides for the cost of the State's general operations and is credited with all tax and other revenue of the State not dedicated to budgetary special funds. Certain Special Funds are subject to appropriation, referred to herein as budgetary or appropriated Special Funds. Unexpended appropriations at year-end are available for subsequent expenditure to the extent that they have been encumbered at that date or legislatively extended for another year. Budget data represents original appropriations modified by interdepartmental transfers, supplemental, continuing, and carried-over encumbered appropriations. Subsequent modifications to the budget require the approval of the Controller General and the Budget Director. Additional detailed information regarding compliance with the legal level on control can be obtained by contacting the Office of Management and Budget at (302) 739-4206. Summary information regarding individual department budgets and the compliance with the legal level of budgetary control is presented on the following pages.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders) outstanding at year-end do not constitute expenditures or liabilities and are reported as reservations of fund balances because the commitments will be honored during the subsequent year.

The budget schedules in Required Supplemental Information a) reflect the adjustments made to increase the special fund's excess of revenues over expenditures for certain revenue sources not previously recognized; b) eliminates the net activity of certain operations that are accounted for within both the special fund and also in the separate accounts of certain component units or

agency funds that are not principally accounted for within the special fund; and c) presents the accrual adjustments necessary to convert budgetary basis information to GAAP basis.

Statutory/Budgetary Presentation

The Budgetary Comparison Schedule – Budget to Actual (Non-GAAP Budgetary Basis) presented on the following pages provides a comparison of the original and final legally adopted budget with actual data on a budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriations bill as of June 30, 2010, and do not include encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year. GAAP requires that the final legal budget be reflected in the "final budget" column; therefore, updated revenue estimates available for appropriations as of the last Delaware Economic and Financial Advisory Council (DEFAC) meeting in June 2010, as well as the amounts shown in the original budget, are reported. The final legal budget also reflects encumbrances and multi-year projects budgetary carry-forwards from the prior fiscal year.

The tables on the following two pages represent the Budgetary Statements of Revenues, Expenditures and Changes in Fund Balance – General and Special Funds. Also included is a schedule showing the budgetary fund balance designations. Of the $538.5 million budgetary general fund balance at June 30, 2010, $186.4 million is reserved for the budgetary reserve account and $147.2 million is designated as continuing and encumbered appropriations. The $204.9 million of undesignated fund balance, for the most part, is not available for new spending as these funds have been committed based on State statues which are subject to review and change by the Legislature.

Budgetary Comparison Schedule-General Fund
Budget to Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2010
(Expressed in Millions)

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Personal income taxes	$ 908.3	$ 848.6	$ 851.9	$ 3.3
Business taxes	1,168.6	1,549.6	1,523.1	(26.5)
Other taxes	148.6	178.5	178.7	0.2
License, permits, fines and fees	292.9	307.5	308.6	1.1
Interest earnings	11.5	10.2	10.9	0.7
Lottery sales	297.6	275.0	275.5	0.5
Other non-tax revenue	91.2	63.6	86.3	22.7
Total revenue	2,918.7	3,233.0	3,235.0	2.0
Expenditures				
Legislature	13.8	16.0	11.8	4.2
Judicial	87.1	89.8	86.4	3.4
Executive	97.9	166.5	89.9	76.6
Department of Technology & Information	35.1	38.4	32.3	6.1
Other Elective Offices	40.6	55.1	54.2	0.9
Legal	42.6	41.6	41.3	0.3
Department of State	27.5	29.6	27.4	2.2
Department of Finance	20.5	28.8	24.3	4.5
Department of Health & Social Services	813.5	853.0	821.4	31.6
Department of Services to Child, Youth and Their Families	130.9	129.5	118.2	11.3
Department of Corrections	249.4	255.7	238.0	17.7
Department of Natural Resources and Environmental Control	37.2	54.4	44.1	10.3
Department of Safety & Homeland Security	122.4	121.6	117.9	3.7
Department of Transportation	0.0	0.0	0.0	0.0
Department of Labor	6.7	6.8	6.2	0.6
Department of Agriculture	7.5	7.2	6.7	0.5
Department of Elections	3.8	4.3	4.0	0.3
Fire Prevention Commission	4.4	4.5	4.3	0.2
Delaware National Guard	4.4	4.7	3.7	1.0
Advisory Council for Exceptional Citizens	0.2	0.2	0.2	0.0
Higher Education	224.6	227.9	227.3	0.6
Department of Education	1,121.1	1,175.2	1,116.9	58.3
Total expenditures	3,091.2	3,310.8	3,076.5	234.3
Excess (deficiency) of revenue over expenditures	(172.5)	(77.8)	158.5	236.3
Budgetary fund balance, beginning of year	380.0	380.0	380.0	0.0
Budgetary fund balance, end of year	$ 207.5	$ 302.2	$ 538.5	$ 236.3

Budgetary fund balance	
Designated:	
Budget reserve account	$ 186.4
Continuing and encumbered appropriations	147.2
Undesignated	204.9
Total	$ 538.5

(See Budgetary Basis vs. GAAP in Notes to Required Supplementary Information)

Budgetary Comparison Schedule-Special Fund
Budget to Actual (Non-GAAP Budgetary Basis)
For the Fiscal Year Ended June 30, 2010
(Expressed in Millions)

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Business taxes	$ 47.6	$ 47.6	$ 45.2	$ (2.4)
Other taxes	4.1	4.1	3.7	(0.4)
License, permits, fines and fees	94.4	94.4	103.5	9.1
Rentals and sales	12.1	12.1	17.9	5.8
Interest earnings	54.8	54.8	5.8	(49.0)
Grants	36.2	36.2	41.3	5.1
Other non-tax revenue	681.1	681.1	488.8	(192.3)
Total revenue	930.3	930.3	706.2	(224.1)
Expenditures				
Legislative	0.1	0.1	-	0.1
Judicial	11.5	12.7	9.4	3.3
Executive	138.5	120.7	79.5	41.2
Department of Technology & Information	29.5	39.9	17.0	22.9
Other Elective Offices	77.3	78.7	73.8	4.9
Legal	6.1	6.8	4.9	1.9
Department of State	37.6	47.0	34.6	12.4
Department of Finance	60.5	86.5	58.7	27.8
Department of Health & Social Services	101.1	121.0	88.9	32.1
Department of Services to Child, Youth and Their Families	19.4	23.4	16.4	7.0
Department of Corrections	4.2	6.0	2.7	3.3
Department of Natural Resources and Environmental Control	91.3	116.8	46.6	70.2
Department of Safety & Homeland Security	12.4	14.7	9.9	4.8
Department of Transportation	343.8	370.9	235.2	135.7
Department of Labor	18.4	19.7	16.3	3.4
Department of Agriculture	8.2	8.6	5.6	3.0
Department of Elections	-	0.2	0.1	0.1
Fire Prevention Commission	2.7	2.9	2.1	0.8
Delaware National Guard	-	-	0.6	(0.6)
Department of Education	5.5	6.1	6.6	(0.5)
Total expenditures	968.1	1,082.7	708.9	373.8
Excess (deficiency) of revenue over expenditures	(37.8)	(152.4)	(2.7)	149.7
Budgetary fund balance, beginning of year	379.9	379.9	379.9	-
Budgetary fund balance, end of year	$ 342.1	$ 227.5	$ 377.2	$ 149.7

(See Budgetary Basis vs. GAAP in Notes to Required Supplementary Information)

Statutory/Budgetary Reconciliations

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation is required of resulting basis, perspective and entity differences in the revenues in excess of (less than) expenditures and other financing sources (uses) between budgetary and GAAP presentations.

The following two schedules represent the accrual adjustments necessary to convert budgetary basis information to GAAP basis.

Budget vs. GAAP Revenue Reconciliation
For the Fiscal Year Ended June 30, 2010
(Expressed in Millions)

Budget basis general and special fund revenue for fiscal year 2010		$3,941.2
Non-appropriated revenue by category:		
Other revenue	79.1	
License, fees, permits, and fines	56.9	
Personal, business, and other taxes	50.1	
Federal government	9.6	
Rentals and sales	10.0	
Interest and other investment income	4.9	
Adjustments and accruals:		
DelDOT fund revenue	(232.5)	
Lottery sales	(333.6)	
Local school districts	(13.2)	
Interfund revenue	(79.6)	
Other accruals and adjustments	(35.1)	
Total general fund revenues for fiscal year 2010		$3,457.8
Federal fund revenue	1,406.2	
Local school fund revenue	493.8	
Capital projects fund revenue	1.2	
		1,901.2
Total GAAP basis governmental funds revenue for fiscal year 2010		$5,359.0

Budget vs. GAAP Expenditures Reconciliation
For the Fiscal Year Ended June 30, 2010
(Expressed in Millions)

Total budget basis general and special fund expenditures for fiscal year 2010		$3,785.4
Non appropriated expenditures by function:		
General government	$542.9	
Health & children's services	26.2	
Judicial & public safety	17.6	
Natural resources & environmental control	32.7	
Labor	12.5	
Education	65.0	
Transportation	14.1	
Adjustments and accruals:		
Tax refunds	(296.3)	
Component units	95.8	
Interfund expenses	(85.4)	
Other accruals and adjustments	(465.8)	
Total general fund expenditures for fiscal year 2010		$3,744.7
Federal fund expenditures	1,466.4	
Local school district fund expenditures	378.0	
Capital projects fund expenditures	244.8	
		2,089.2
Total GAAP basis governmental funds expenditures for fiscal year 2010		$5,833.9

Required Supplementary Information

Information About Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 4,447 centerline miles and approximately 1,556 bridges that the State is responsible to maintain.

The condition of the State's road pavement is measured using the Overall Pavement Condition (OPC) system, which is based on the extent and severity of various pavement distresses that are visually observed. The OPC system uses a measurement scale that is based on a condition index ranging from 0.0 for poor pavement to 5.0 for pavement in good condition.

The condition of bridges is measured using the "Bridge Condition Rating" (BCR) which is based on the Federal Highway Administration (FHWA) Coding Guide, "Recording and Coding Guide for the Structure Inventory and Appraisal of the Nation's Bridges." The BCR uses a measurement scale that is based on a condition index ranging from 0 to 9, 0 to 4 for substandard bridges and 9 for bridges in good condition. For reporting purposes, substandard bridges are classified as those with a rating of 4 or less. The good or better condition bridges were taken as those with ratings of between 6 and 9. A rating of 5 is considered fair. The information is taken from past "Bridge Inventory Status" reports.

It is the State's policy to maintain at least 85% of its highways at a fair or better condition level and 75% of its bridge systems at a good or better condition level. No more than 10% of bridges and 15% of roads should be in substandard condition. Condition assessments are determined every year for roads and every two years for bridges. Due to the timing of these condition assessments, information for the fiscal year ended June 30, 2010 is not available.

State of Delaware
Department of Transportation
Supplementary Information for Governments That Use the
Modified Approach for Infrastructure Assets

Structural Rating Numbers and Percentages for Bridges

	BCR Condition Rating	2009 Number	2009 Percent	2008 Number	2008 Percent	2007 Number	2007 Percent
Good	6-9	1,144	73.5	1,118	74.1	1,131	77.6
Fair	5	295	19.0	291	19.3	261	17.9
Poor	0-4	117	7.5	100	6.6	65	4.5
Totals		1,556	100	1,509	100	1,457	100

(Calendar Year Ended December 31)

Deck Rating Numbers and Percentages for Bridges

	OPC Condition Rating	2009 Square Feet	2009 Percent	2008 Square Feet	2008 Percent	2007 Square Feet	2007 Percent
Good	6-9	6,800,531	92.8	6,799,842	93.0	6,809,939	93.4
Fair	5	510,306	6.9	485,635	6.6	450,384	6.2
Poor	0-4	19,558	0.3	26,253	0.4	29,590	0.4
Totals		7,330,395	100	7,311,730	100	7,289,913	100

(Calendar Year Ended December 31)

Center-Line Mile Numbers and Percentages for Road Pavement

	OPC Condition Rating	2008 Center-Line Mile	2008 Percent	2007 Center-Line Mile	2007 Percent	2006 Center-Line Mile	2006 Percent
Good	3.0-5.0	3,007	67.6	3,071	68.9	3,055	68.6
Fair	2.5-3.0	1000	22.5	935	21.0	933	20.9
Poor	Below 2.5	440	9.9	448	10.1	466	10.5
Totals		4,447	100	4,454	100	4,454	100

(Calendar Year Ended December 31)

Comparison of Estimated-to-Actual Maintenance/Preservation*
(Expressed In Thousands)

Fiscal Year ended June 30

	2010	2009	2008	2007	2006
Estimated	$102,183	$208,764	$197,301	$129,138	$135,991
Actual	$336,214	$308,732	$271,333	$256,571	$211,347

* The estimated expenditures represent annual Bond Bill authorization. The actual expenditures represent the current year spending, which includes cumulative authorization.

Required Supplementary Information – Pension

The following tables present additional information related to funding status and progress, annual pension costs and actuarial methods and assumptions. It is intended to help readers assess the individual plans' funding status on a going-concern basis and assess progress made in accumulating sufficient assets to pay benefits when due.

Delaware Public Employees' Retirement System (DPERS)

The amount shown below as actuarial accrued liability is a measure of the difference between the actuarial present value of future plan benefits, and the actuarial present value of future normal cost.

Schedule of Funding Status and Progress
(Expressed in Thousands)

Plan	Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL AAL AAL (UAAL) (Excess of Assets over Liabilities) (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Annual Covered Payroll	(6) UAAL/ (Excess) as % of Covered Payroll (3) / (5)
State Employees *	6/30/10	$ 6,808,957	$ 7,096,369	$ 287,369	96.0%	$ 1,740,622	16.5%
	6/30/09	6,744,050	6,827,006	82,956	98.8%	1,753,129	4.7%
	6/30/08	6,751,949	6,549,856	(202,093)	103.1%	1,711,473	(11.8%)
Special	6/30/10	$ 457	$ 333	$ (124)	137.2%	N/A	N/A
	6/30/09	516	399	(117)	129.3%	N/A	N/A
	6/30/08	614	492	(122)	124.8%	N/A	N/A
Closed State Police +	6/30/10	$ 1,440	$ 298,493	$ 297,053	0.5%	$ 339	87,626.3%
	6/30/09	727	306,904	306,177	0.2%	619	49,463.2%
	6/30/08	618	299,921	299,294	0.2%	1,152	25,980.4%
New State Police *	6/30/10	$ 245,303	$ 260,258	$ 14,955	94.3%	$ 49,896	30.0%
	6/30/09	229,457	241,251	11,794	95.1%	50,425	23.4%
	6/30/08	216,368	214,921	(1,447)	100.7%	47,971	(3.0%)
Judiciary*	6/30/10	$ 51,550	$ 60,104	$ 8,554	85.8%	$ 9,798	87.3%
	6/30/09	49,036	57,799	8,763	84.8%	9,814	89.3%
	6/30/08	47,209	55,856	8,647	84.5%	9,689	89.2%
Diamond State Port Corporation	6/30/10	$ 15,418	$ 18,354	$ 2,936	84.0%	$ 11,224	26.2%
	6/30/09	14,353	16,284	1,931	88.1%	11,071	17.4%
	6/30/08	13,391	14,139	748	94.7%	10,270	7.3%
County & Municipal Police Firefighters	6/30/10	$ 135,684	$ 141,430	$ 5,746	95.9%	$ 56,917	10.1%
	6/30/09	119,712	122,573	2,861	97.7%	55,478	5.2%
	6/30/08	102,423	103,911	1,488	98.6%	49,328	3.0%
County and Municipal Other Employees	6/30/10	$ 17,596	$ 19,827	$ 2,231	88.7%	$ 20,591	10.8%
	6/30/09	15,074	16,787	1,713	89.8%	19,046	9.0%
	6/30/08	12,980	14,308	1,328	90.7%	18,632	7.1%
						Active Member ++	Cost per Active Member ++
Volunteer Firemen	6/30/10	$ 13,663	$ 27,382	$ 13,719	49.9%	4,898	2,801
	6/30/09	13,241	26,562	13,321	49.8%	5,074	2,625
	6/30/08	12,972	25,719	12,747	50.4%	5,066	2,516

* Excludes liability and amortization payments due to cost-of-living adjustments. This liability is funded from the Post-Retirement Increase Fund and is funded over five years.

\+ The Closed State Police Pension Plan is a pay-as-you-go pension plan.

++ Not expressed in thousands.

N/A – Not Applicable

Annual Pension Cost, Actuarial Methods and Assumptions - DPERS

The schedules below provide information concerning annual pension costs. Annual pension cost for each plan, except the Closed State Police Plan, is equal to the respective plan's required and actual contributions for the fiscal year ended June 30, 2010.

Schedule of Annual Pension Cost, Actuarial Methods and Assumptions
(Expressed in Thousands)

Plan	State Employees'	Special	Closed State Police	New State Police	Judiciary
Annual Pension Cost	$ 101,457	N/A	$ 27,214	$ 6,562	$ 2,473
Actuarial Valuation Date	6/30/10	6/30/10	6/30/10	6/30/10	6/30/10
Actuarial Cost Method	Entry Age Normal	N/A	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed for Plan Bases & Open for Aggregate Gain/Loss	N/A	Level Dollar Closed	Level Percent Closed	Level Percent Closed
Remaining Amortization Period	20 years (1)	N/A	27 years	20 years (1)	12.07 years (1)
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:					
Investment rate of return	8.0%	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases [1]	4.3% to 10.1%	N/A	4.8% to 5.3%	4.8% to 16.7%	4.3% to 13.1%
Cost-of-living adjustments	Ad hoc	Ad hoc	Based on CPI	Ad hoc	Ad hoc

Plan	Diamond State Port Corporation	County & Municipal Police and Firefighters'	County & Municipal Other Employees	Delaware Volunteer Firemen's
Annual Pension Cost	$ 594	$ 7,307	$ 1,276	$ 1,703
Actuarial Valuation Date	6/30/10	6/30/10	6/30/10	6/30/10
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed	Level Percent Open	Level Percent Open	Level Dollar Closed
Remaining Amortization Period	15 years	10 years	10 years	18 years
Asset Valuation Method	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:				
Investment rate of return	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases [1]	4.8%	4.3% to 15.7%	4.3% to 10.1%	N/A
Cost-of-living adjustments	Ad Hoc	Ad Hoc	Ad Hoc	Ad Hoc

[1] Excludes liability and amortization payments due to cost-of living adjustments. This liability is funded from the Post-Retirement Increase Fund. Each COLA is funded over 5 years.

N/A: Not applicable

DelDOT - Delaware Transit Corporation – Pension Data

The most recent information available for Delaware Transit Corporation's annual pension cost and related information for each plan is as follows (note – the current year information is not available for each plan):

Schedule of Funding Status and Progress
(Expressed in Dollars)

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(c) Unfunded AAL (UAAL) (Excess of Assets over AAL) (a-b)	(d) Funded Ratio (a / b)	(e) Annual Covered Payroll	(f) UAAL (Excess) as % of Covered Payroll (c / e)
DTC Pension Plan	07/01/2009	$ 10,282,778	$ 10,797,306	$ (514,528)	95.23%	$ 11,624,462	(4.43%)
	07/01/2008	10,886,557	11,290,478	(403,921)	96.42%	12,082,615	(3.34%)
	07/01/2007	10,533,449	10,873,946	(340,497)	96.87%	9,993,019	(3.41%)
Contributory Plan	1/1/2010	$ 26,246,390	$ 27,215,318	$ (968,928)	96.44%	$ 22,675,263	(4.27%)

Schedule of Annual Pension Cost, Actuarial Methods and Assumptions
(Expressed in Dollars)

Plan	DTC Pension Plan	Contributory Pension Plan
Contribution Rates:		
Employer	Actuarially Determined	5.00%
Participants	N/A	5.00%
Annual Pension Cost	$ 1,033,998	$ 674,249
Contributions Made	$ 1,033,487	$ 1,063,098
Actuarial Valuation Date	7/01/09	01/01/10
Actuarial Cost Method	Frozen Initial Liability	Entry Age Normal
Remaining Amortization Period	18	30
Asset Valuation Method	Market	Five-Year Smoothed Market
Actuarial Assumptions:		
Investment rate of return	7.50%	7.00%
Projected Salary Increases	4.50%	4.00%

Note: For the contributory pension plan valuation dated January 1, 2008, the actuarial cost method was changed from the aggregate method to the entry age normal method. In addition, the asset valuation method was changed to the five-year smoothed market method.
N/A: Not applicable

Required Supplementary Information – OPEB Trust

The following table presents additional information related to funding status and progress. It is intended to help readers assess the individual plans' funding status on a going-concern basis and assess progress made in accumulating sufficient assets to pay benefits when due.

OPEB Trust

The amount shown below as "actuarial accrued liability" is a measure of the difference between the actuarial present value of future plan benefits and the actuarial present value of future normal cost.

Schedule of Funding Status and Progress
(Expressed in Millions)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded Actuarial Accrued Liabilities (UAAL) (2) - (1)	(4) Funded Ratio (1) / (2)	(5) Covered Payroll	(6) UAAL as a % of Covered Payroll (3) / (5)
7/1/2010	$ 104	$ 5,884	$ 5,780	1.8%	$ 1,798	321%
7/1/2009	83	5,636	5,553	1.5%	1,811	307%

Valuation Date	July 1, 2010
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent Open
Remaining Amortization Period	30 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	5.00%
Rate of Salary Increases	3.75% (plus merit scale)
Ultimate Rate of Medical inflation	5.00%
Initial Rate of Medical Inflation	9.00%

	Total	Governmental Activities	Business Type Activities
Net OPEB obligation at June 30, 2009	$ 662.4	$ 608.5	$ 53.9
Annual required contribution	498.3	459.6	38.7
Adjustment to annual required contribution	0.9	-	0.9
Annual OPEB cost	1161.6	1068.1	93.5
Employer contribution	(174.7)	(162.0)	(12.7)
Net OPEB obligation at June 30, 2010	$ 986.9	$ 906.1	$ 80.8

The State's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2010 are as follows (dollar amounts in millions):

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2010	$ 480.0	36%	$ 956.5

Delaware Transit Corporation - OPEB

As of June 30, 2010, the plan was 1.80% funded. The actuarial liability was $82.6 million. The covered payroll (annual payroll of active employees covered by the plan) was 31.4 million, and the ratio of the UAAL to the covered payroll was 38%.

In April 1, 2010 actuarial valuation, the projected unit credit method was used the linear proration to assumed benefit commencement. The actuarial assumptions included a partially funded 4.75% investment rate of return, 4.0% payroll growth rate, a 3.2% inflation rate, and a healthcare cost trend rate of 8.0% initially, reduced by decrements to 6.9% after 10 years. The ultimate healthcare cost trend rate will remain constant at 5.2% after 2080. The unfunded liability is being amortized as a level percentage of payroll over a 30-year amortization period.

STATE OF DELAWARE

Information on Federal Awards in Accordance with OMB Circular A-133

Year ended June 30, 2010

(With Independent Auditors' Report Thereon)

STATE OF DELAWARE

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Note: Throughout this document the State of Delaware has used the designation "S" to indicate funds received under the stimulus program "American Recovery and Reinvestment Act."

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Honorable Governor and
Honorable Members of the State Legislature
State of Delaware

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Delaware (the "State") as of and for the year ended June 30, 2010, which collectively comprise the State's basic financial statements and have issued our report thereon dated December 29, 2010. Our report was modified to include reference to other auditors. As discussed in note 1(b) to the financial statements, the State adopted Governmental Accounting Standards Board Statement (GASB) No. 51, *Accounting and Financial Reporting for Intangible Assets* during fiscal year 2010.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the State's component units, as described in our report on the State's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the State's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be a significant deficiency.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a

material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2010-01 through 2010-04 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2010-05 to be a significant deficiency in internal control over financial reporting.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the State's management in a separate letter dated December 29, 2010.

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the State's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Secretary of Finance, Office of the Governor, Attorney General, Comptroller General, Office of Management and Budget, and the U.S. Department of Health and Human Services and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 29, 2010

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and the Schedule of Expenditures of Federal Awards

The Honorable Governor and
Honorable Members of the State Legislature
The State of Delaware:

Compliance

We have audited the compliance of the State of Delaware (the State) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The State's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

The State's basic financial statements include the operations of Delaware State University, the Delaware State Housing Authority, the Diamond State Port Authority, and the Charter Schools, which are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2010. Our audit, described below, did not include the operations of Delaware State University, the Delaware State Housing Authority, the Diamond State Port Authority, Riverfront Development Corporation, Delaware Technical and Community College (DTCC) Foundation, and the Charter Schools because either other auditors were engaged to perform audits in accordance with OMB Circular A-133 for these entities, or because less than $500,000 in federal awards were expended.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State's compliance with those requirements.

Adverse
As described in the accompanying Schedule of Findings and Questioned Costs, the State did not comply with requirements that are applicable to its Low Income Home Energy Assistance Program and Weatherization Assistance for Low-Income Persons Program. Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to these programs. The program compliance requirements were:

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Department of Health and Social Services – Division of State Service Centers	10-SSC-01	93.568	Low Income Home Energy Assistance Program	Allowable Costs (Non-payroll)/Subrecipient Monitoring
Department of Health and Social Services – Division of State Service Centers	10-SSC-02	93.568	Low Income Home Energy Assistance Program	Subrecipient Monitoring
Department of Health and Social Services – Division of State Service Centers	10-SSC-03	S-81.042, 81.042	Weatherization Assistance for Low-Income Persons	Allowable Costs (Non-payroll)/Subrecipient Monitoring
Department of Health and Social Services – Division of State Service Centers	10-SSC-04	S-81.042, 81.042	Weatherization Assistance for Low-Income Persons	Allowable Costs (Non-payroll)
Department of Health and Social Services – Division of State Service Centers	10-SSC-05	S-81.042, 81.042	Weatherization Assistance for Low-Income Persons	Earmarking
Department of Health and Social Services – Division of State Service Centers	10-SSC-06	S-81.042	Weatherization Assistance for Low-Income Persons	Subrecipient Monitoring - ARRA
Department of Health and Social Services – Division of State Service Centers	10-SSC-07	S-81.042, 81.042	Weatherization Assistance for Low-Income Persons	Subrecipient Monitoring
Department of Health and Social Services – Division of State Service Centers	10-SSC-08	S-81.042, 81.042	Weatherization Assistance for Low-Income Persons	Procurement

In our opinion, because of the effects of the noncompliance described above, the State of Delaware did not comply in all material respects with the requirements referred to above that could have a direct and material effect on the Low Income Home Energy Assistance Program and Weatherization Assistance for Low-Income Persons Program.

Qualified
Also, the State did not comply with certain compliance requirements that are applicable to certain of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the State to comply with requirements applicable to the identified major programs. The specific instances of noncompliance are identified and described in the accompanying schedule of findings and questioned costs as follows:

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Department of Education – Brandywine School District, Caesar Rodney School District, Cape Henlopen School District, Christina School District, Laurel School District, Red Clay School District, Woodbridge School District	10-ED-02	84.010, S-84.389	Title I Grants to Local Educational Agencies	Allowable Costs (Effort Reporting)
		84.027, 84.173, S-84.391, S-84.392	Special Education Cluster	
		84.367	Improving Teacher Quality State Grants	
Department of Education – Caesar Rodney School District, Cape Henlopen School District, Laurel School District, Woodbridge School District	10-ED-08	84.010, S-84.389	Title I Grants to Local Educational Agencies	Special Tests and Provisions (Private School Children)
		84.367	Improving Teacher Quality State Grants	
Department of Education	10-ED-09	84.010	Title I Grants to Local Educational Agencies	Special Tests and Provisions (Title I Monitoring Report)
Department of Education	10-ED-10	84.027, 84.173, S-84.391, S-84.392	Special Education Cluster	Level of Effort (Maintenance of Effort)
Department of Education	10-ED-11	10.558	Child and Adult Care Food Program	Eligibility (Subrecipients)
Department of Education	10-ED-12	10.558	Child and Adult Care Food Program	Subrecipient Monitoring
		10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster	
Department of Health and Social Services	10-DHSS-02	93.558, S-93.714	Temporary Assistance for Needy Families	Reporting

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Department of Health and Social Services – Division of Child Support Enforcement	10-CSE-01	S-93.563 93.563	Child Support Enforcement	Allowable Costs (Effort Reporting)
Department of Health and Social Services – Division of Child Support Enforcement	10-CSE-03	S-93.563 93.563	Child Support Enforcement	Special Tests and Provisions (Establishment of Paternity Obligation)
Department of Health and Social Services – Division of Public Health	10-DPH-03	S-66.468, 66.468	Capitalization Grants for Drinking Water State Revolving Funds	Subrecipient Monitoring
Department of Labor	10-DOL-06	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260	Work Investment Act Cluster	Subrecipient Monitoring
Department of Labor	10-DOL-07	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260	Work Investment Act Cluster	Cash Management
Department of Labor	10-DOL-08	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260	Work Investment Act Cluster	Eligibility
Department of Labor	10-DOL-09	S-17.258, S-17.259, S-17.260	Work Investment Act Cluster	Reporting – Section 1512
Delaware National Guard	10-DNG-01	S-12.401	National Guard Military Operations and Maintenance (O&M) Projects	Davis-Bacon Act
Delaware National Guard	10-DNG-03	S-12.401, 12.401	National Guard Military Operations and Maintenance (O&M) Projects	Procurement
Department of Natural Resources and Environmental Control	10-DNR-01	S-81.041, 81.041	State Energy Program	Cash Management
Department of Natural Resources and Environmental Control	10-DNR-02	S-81.041, 81.041	State Energy Program	Subrecipient Monitoring

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Department of Natural Resources and Environmental Control	10-DNR-03	S-81.041	State Energy Program	Reporting (ARRA 1512)
Department of Natural Resources and Environmental Control	10-DNR-05	S-81.041, 81.041	State Energy Program	Reporting (Quarterly Reports to DOE)
Department of Natural Resources and Environmental Control	10-DNR-07	S-66.458, 66.458	Capitalization Grants for Clean Water State Revolving Funds	Subrecipient Monitoring, Davis-Bacon Act
Department of Natural Resources and Environmental Control	10-DNR-08	S-81.041, 81.041	State Energy Program	Reporting
Department of Agriculture	10-AGR-01	10.913	Farm and Ranch Lands Protection Program	Cash Management
Department of Agriculture	10-AGR-02	10.913	Farm and Ranch Lands Protection Program	Reporting
Department of Agriculture	10-AGR-03	10.913	Farm and Ranch Lands Protection Program	Special Tests and Provisions (Property Monitoring Site Visits)
Department of Transportation	10-DOT-01	20.205, S-20.205, 20.219	Highway Planning & Construction Cluster	Subrecipient Monitoring
Department of Transportation/ Delaware Transit Corporation	10-DOT-03	S-20.500, S-20.507	Federal Transit Cluster	Special Tests – Separate Accountability for ARRA Funding
Department of Transportation	10-DOT-04	S-20.205	Highway Planning & Construction Cluster	Reporting (Section 1512)

In our opinion, except for the noncompliance identified in the preceding paragraph, the State complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as follows:

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Delaware Technical and Community College - Wilmington/Stanton Campus	10-DTC-01	84.007, 84.063	Student Financial Assistance Cluster	Special Tests and Provisions – Return of Title IV Funds
Delaware Technical and Community College - Owens Campus	10-DTC-02	84.007, 84.063	Student Financial Assistance Cluster	Special Tests and Provisions – Return of Title IV Funds
Department of Education	10-ED-01	84.010, S-84.389	Title I Grants to Local Educational Agencies	Allowable Costs (Indirect Costs)

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
		84.027, 84.173, S-84.391, S-84.392	Special Education Cluster	
		84.367	Improving Teacher Quality State Grants	
Department of Education – Laurel School District, Woodbridge School District	10-ED-03	84.010, S-84.389	Title I Grants to Local Educational Agencies	Allowable Costs (Intrastate Costs)
		84.027, 84.173, S-84.391, S-84.392	Special Education Cluster	
Department of Education	10-ED-07	84.010, S-84.389	Title I Grants to Local Educational Agencies	Special Tests and Provisions (Schoolwide Programs)
Department of Education –Red Clay School District	10-ED-14	84.010, S-84.389	Title I Grants to Local Educational Agencies	Procurement
Department of Health and Social Services – Division of Management Services	10-DHSS-01	10.551, 10.561, S-10.561	Supplemental Nutrition Assistance Program Cluster	Allowable Costs
		93.558, S-93.714	Temporary Assistance for Needy Families	
		93.596, 93.575, S-93.713	Child Care Cluster	
		93.767	State Children's Health Insurance Program	
		93.775, 93.777, S-93.777, 93.778 S-93.778	Medicaid Cluster	
Department of Health and Social Services – Department of Social Services	10-DSS-03	93.775, 93.777, S-93.777, 93.778 S-93.778	Medicaid Cluster	Eligibility
Department of Health and Social Services – Department of Social Services	10-DSS-04	93.775, 93.777, S-93.777, 93.778 S-93.778	Medicaid Cluster	Eligibility
		93.558, S-93.714	Temporary Assistance for Needy Families	

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Department of Health and Social Services – Division of Child Support Enforcement	10-CSE-02	S-93.563 93.563	Child Support Enforcement	Special Tests and Provisions (Enforcement of Support Obligations)
Department of Health and Social Services – Division of Public Health	10-DPH-01	S-66.468 66.468	Capitalization Grants for Drinking Water State Revolving Funds	Allowable Costs (Effort Reporting)
		10.557	Special Supplemental Nutrition Program for Women, Infants and Children	
		S-93.268, 93.268 S-93.712	Immunization Cluster	
Department of Health and Social Services – Division of Public Health	10-DPH-02	10.557	Special Supplemental Nutrition Program for Women, Infants and Children	Reporting
Department of Health and Social Services – Division of Public Health	10-DPH-05	10.557	Special Supplemental Nutrition Program for Women, Infants and Children	Eligibility
Department of Health and Social Services – Division of Public Health	10-DPH-08	S-93.268 93.268 S-93.712	Immunization Cluster	Special Tests and Provisions (Control, Accountability, and Safeguarding of Vaccine)
Department of Health and Social Services – Division of Public Health	10-DPH-09	S-93.268 93.268 S-93.712	Immunization Cluster	Special Tests and Provisions (Record of Immunization)
Department of Labor	10-DOL-01	84.126, S-84.390	Vocational Rehabilitation Cluster	Allowable Costs
Department of Labor	10-DOL-02	84.126, S-84.390	Vocational Rehabilitation Cluster	Eligibility
Department of Labor	10-DOL-03	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260	Work Investment Act Cluster	Allowable Costs
Department of Labor	10-DOL-05	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260	Work Investment Act Cluster	Reporting
Department of Labor	10-DOL-10	S-17.225, 17.225	Unemployment Insurance	Reporting

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement
Department of Safety and Homeland Security – Delaware Emergency Management Agency	10-DSHS-01	97.067	Homeland Security Grant	Reporting
Department of Safety and Homeland Security – Delaware Emergency Management Agency	10-DSHS-02	97.067	Homeland Security Grant	Subrecipient Monitoring
Delaware National Guard	10-DNG-02	S-12.401, 12.401	National Guard Military Operations and Maintenance (O&M) Projects	Equipment and Real Property Management
Delaware National Guard	10-DNG-04	S-12.401, 12.401	National Guard Military Operations and Maintenance (O&M) Projects	Reporting
Delaware National Guard	10-DNG-05	S-12.401	National Guard Military Operations and Maintenance (O&M) Projects	Reporting (ARRA 1512)
Department of Natural Resources and Environmental Control	10-DNR-04	S-81.041, 81.041	State Energy Program	Allowable Costs (Effort Reporting)
Department of Natural Resources and Environmental Control	10-DNR-06	S-66.458	Capitalization Grants for Clean Water State Revolving Funds	Reporting (ARRA 1512)
Department of Transportation/ Delaware Transit Corporation	10-DOT-02	20.500, S-20.500 20.507, S-20.507	Federal Transit Cluster	Subrecipient Monitoring
Department of Transportation/ Delaware Transit Corporation	10-DOT-05	S-20.500, S-20.507	Federal Transit Cluster	Reporting (Section 1512)

Internal Control over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance

that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items identified below by two asterisks (**) to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items identified below by an asterisk (*) to be significant deficiencies.

State Agency	**Finding Number**	**CFDA No.**	**Program**	**Compliance Requirement**	
Delaware Technical and Community College - Wilmington/Stanton Campus	10-DTC-01	84.007, 84.063	Student Financial Assistance Cluster	Special Tests and Provisions – Return of Title IV Funds	*
Delaware Technical and Community College - Owens Campus	10-DTC-02	84.007, 84.063	Student Financial Assistance Cluster	Special Tests and Provisions – Return of Title IV Funds	*
Department of Education	10-ED-01	84.010, S-84.389	Title I Grants to Local Educational Agencies	Allowable Costs (Indirect Costs)	*
		84.027, 84.173, S-84.391, S-84.392	Special Education Cluster		
		84.367	Improving Teacher Quality State Grants		
Department of Education – Brandywine School District, Caesar Rodney School District, Cape Henlopen School District, Christina School District, Laurel School District, Red Clay School District, Woodbridge School District	10-ED-02	84.010, S-84.389	Title I Grants to Local Educational Agencies	Allowable Costs (Effort Reporting)	**
		84.027, 84.173, S-84.391, S-84.392	Special Education Cluster		

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement	
		84.367	Improving Teacher Quality State Grants		
Department of Education – Laurel School District, Woodbridge School District	10-ED-03	84.010, S-84.389	Title I Grants to Local Educational Agencies	Allowable Costs (Intrastate Costs)	*
		84.027, 84.173, S-84.391, S-84.392	Special Education Cluster		
Department of Education – School Districts	10-ED-04	84.010, S-84.389	Title I Grants to Local Educational Agencies	Level of Effort (Maintenance of Effort)	*
		84.027, 84.173, S-84.391, S-84.392	Special Education Cluster		
		84.367	Improving Teacher Quality State Grants		
Department of Education – Laurel School District	10-ED-05	S-84.389	Title I Grants to Local Educational Agencies - ARRA	Reporting (Section 1512 ARRA Reporting)	*
		S-84.391, S-84.392	Special Education Cluster - ARRA		
		S-84.394, S-84.397	State Fiscal Stabilization Fund Cluster		
Department of Education	10-ED-06	84.010, S-84.389	Title I Grants to Local Educational Agencies	Reporting	*
		84.027, 84.173, S-84.391, S-84.392	Special Education Cluster		
		84.367	Improving Teacher Quality State Grants		
Department of Education	10-ED-07	84.010, S-84.389	Title I Grants to Local Educational Agencies	Special Tests and Provisions (Schoolwide Programs)	*
Department of Education – Caesar Rodney School District, Cape Henlopen School District, Laurel School District, Woodbridge School District	10-ED-08	84.010, S-84.389	Title I Grants to Local Educational Agencies	Special Tests and Provisions (Private School Children)	**
		84.367	Improving Teacher Quality State Grants		

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement	
Department of Education	10-ED-09	84.010	Title I Grants to Local Educational Agencies	Special Tests and Provisions (Title I Monitoring Report)	**
Department of Education	10-ED-10	84.027, 84.173, S-84.391, S-84.392	Special Education Cluster	Level of Effort (Maintenance of Effort)	**
Department of Education	10-ED-11	10.558	Child and Adult Care Food Program	Eligibility (Subrecipients)	**
Department of Education	10-ED-12	10.558	Child and Adult Care Food Program	Subrecipient Monitoring	**
		10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster		
Department of Education – Brandywine School District	10-ED-13	84.010, S-84.389	Title I Grants to Local Educational Agencies	Allowable Costs (Payment Vouchers)	*
		84.027, 84.173, S-84.391, S-84.392	Special Education Cluster		
		S-84.394	State Fiscal Stabilization Fund Cluster		
Department of Education –Red Clay School District	10-ED-14	84.010, S-84.389	Title I Grants to Local Educational Agencies	Procurement	*
Department of Health and Social Services – Division of Management Services	10-DHSS-01	10.551, 10.561, S-10.561	Supplemental Nutrition Assistance Program Cluster	Allowable Costs	*
		93.558, S-93.714	Temporary Assistance for Needy Families		
		93.596, 93.575, S-93.713	Child Care Cluster		
		93.767	State Children's Health Insurance Program		
		93.775, 93.777, S-93.777, 93.778, S-93.778	Medicaid Cluster		
Department of Health and Social Services	10-DHSS-02	93.558, S-93.714	Temporary Assistance for Needy Families	Reporting	**

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement	
Department of Health and Social Services – Department of Social Services	10-DSS-01	93.596, 93.575, S-93.713	Child Care Cluster	Allowable Costs	*
Department of Health and Social Services – Department of Social Services	10-DSS-02	93.558, S-93.714	Temporary Assistance for Needy Families	Suspension and Debarment	*
Department of Health and Social Services – Department of Social Services	10-DSS-03	93.775, 93.777, S-93.777, 93.778, S-93.778	Medicaid Cluster	Eligibility	*
Department of Health and Social Services – Department of Social Services	10-DSS-04	93.775, 93.777, S-93.777, 93.778, S-93.778	Medicaid Cluster	Eligibility	*
		93.558, S-93.714	Temporary Assistance for Needy Families		
Department of Health and Social Services – Division of Child Support Enforcement	10-CSE-01	S-93.563, 93.563	Child Support Enforcement	Allowable Costs (Effort Reporting)	**
Department of Health and Social Services – Division of Child Support Enforcement	10-CSE-02	S-93.563, 93.563	Child Support Enforcement	Special Tests and Provisions (Enforcement of Support Obligations)	*
Department of Health and Social Services – Division of Child Support Enforcement	10-CSE-03	S-93.563, 93.563	Child Support Enforcement	Special Tests and Provisions (Establishment of Paternity Obligation)	**
Department of Health and Social Services – Division of Child Support Enforcement	10-CSE-04	S-93.563, 93.563	Child Support Enforcement	Suspension and Debarment	*
Department of Health and Social Services – Division of Child Support Enforcement	10-CSE-05	S-93.563, 93.563	Child Support Enforcement	Reporting	**
Department of Health and Social Services – Division of Public Health	10-DPH-01	S-66.468, 66.468	Capitalization Grants for Drinking Water State Revolving Funds	Allowable Costs (Effort Reporting)	*
		10.557	Special Supplemental Nutrition Program for Women, Infants and Children		
		S-93.268, 93.268, S-93.712	Immunization Cluster		

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement	
Department of Health and Social Services – Division of Public Health	10-DPH-02	10.557	Special Supplemental Nutrition Program for Women, Infants and Children	Reporting	*
Department of Health and Social Services – Division of Public Health	10-DPH-03	S-66.468, 66.468	Capitalization Grants for Drinking Water State Revolving Funds	Subrecipient Monitoring	**
Department of Health and Social Services – Division of Public Health	10-DPH-04	S-93.268, 93.268, S-93.712	Immunization Cluster	Suspension and Debarment	*
Department of Health and Social Services – Division of Public Health	10-DPH-05	10.557	Special Supplemental Nutrition Program for Women, Infants and Children	Eligibility	*
Department of Health and Social Services – Division of Public Health	10-DPH-06	S-66.468	Capitalization Grants for Drinking Water State Revolving Funds	Reporting – Section 1512	*
		S-93.712	Immunization Cluster		
Department of Health and Social Services – Division of Public Health	10-DPH-07	93.069	Public Health Emergency State Revolving Funds	Suspension and Debarment	*
Department of Health and Social Services – Division of Public Health	10-DPH-08	S-93.268, 93.268, S-93.712	Immunization Cluster	Special Tests and Provisions (Control, Accountability, and Safeguarding of Vaccine)	*
Department of Health and Social Services – Division of Public Health	10-DPH-09	S-93.268, 93.268, S-93.712	Immunization Cluster	Special Tests and Provisions (Record of Immunization)	*
Department of Health and Social Services – Division of State Service Centers	10-SSC-01	93.568	Low Income Home Energy Assistance Program	Allowable Costs (Non-payroll)/Subrecipient Monitoring	**
Department of Health and Social Services – Division of State Service Centers	10-SSC-02	93.568	Low Income Home Energy Assistance Program	Subrecipient Monitoring	**
Department of Health and Social Services – Division of State Service Centers	10-SSC-03	S-81.042, 81.042	Weatherization Assistance for Low-Income Persons	Allowable Costs (Non-payroll)/Subrecipient Monitoring	**
Department of Health and Social Services – Division of State Service Centers	10-SSC-04	S-81.042, 81.042	Weatherization Assistance for Low-Income Persons	Allowable Costs (Non-payroll)	*
Department of Health and Social Services – Division of State Service Centers	10-SSC-05	S-81.042, 81.042	Weatherization Assistance for Low-Income Persons	Earmarking	**

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement	
Department of Health and Social Services – Division of State Service Centers	10-SSC-06	S-81.042	Weatherization Assistance for Low-Income Persons	Subrecipient Monitoring - ARRA	*
Department of Health and Social Services – Division of State Service Centers	10-SSC-07	S-81.042, 81.042	Weatherization Assistance for Low-Income Persons	Subrecipient Monitoring	**
Department of Health and Social Services – Division of State Service Centers	10-SSC-08	S-81.042, 81.042	Weatherization Assistance for Low-Income Persons	Procurement	**
Department of Labor	10-DOL-01	84.126, S-84.390	Vocational Rehabilitation Cluster	Allowable Costs	*
Department of Labor	10-DOL-02	84.126, S-84.390	Vocational Rehabilitation Cluster	Eligibility	*
Department of Labor	10-DOL-03	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260	Work Investment Act Cluster	Allowable Costs	*
Department of Labor	10-DOL-04	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260	Work Investment Act Cluster	Procurement, Suspension and Debarment	*
Department of Labor	10-DOL-05	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260	Work Investment Act Cluster	Reporting	*
Department of Labor	10-DOL-06	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260	Work Investment Act Cluster	Subrecipient Monitoring	**
Department of Labor	10-DOL-07	17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260	Work Investment Act Cluster	Cash Management	**
Department of Labor	10-DOL-08	17.258, S-17.258, 17.259,	Work Investment Act Cluster	Eligibility	**

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement	
		S-17.259, 17.260, S-17.260			
Department of Labor	10-DOL-09	S-17.258, S-17.259, S-17.260	Work Investment Act Cluster	Reporting – Section 1512	**
Department of Labor	10-DOL-10	S-17.225, 17.225	Unemployment Insurance	Reporting	*
Department of Safety and Homeland Security – Delaware Emergency Management Agency	10-DSHS-01	97.067	Homeland Security Grant	Reporting	*
Department of Safety and Homeland Security – Delaware Emergency Management Agency	10-DSHS-02	97.067	Homeland Security Grant	Subrecipient Monitoring	*
Delaware National Guard	10-DNG-01	S-12.401	National Guard Military Operations and Maintenance (O&M) Projects	Davis-Bacon Act	**
Delaware National Guard	10-DNG-02	S-12.401, 12.401	National Guard Military Operations and Maintenance (O&M) Projects	Equipment and Real Property Management	*
Delaware National Guard	10-DNG-03	S-12.401, 12.401	National Guard Military Operations and Maintenance (O&M) Projects	Procurement	**
Delaware National Guard	10-DNG-04	S-12.401, 12.401	National Guard Military Operations and Maintenance (O&M) Projects	Reporting	*
Delaware National Guard	10-DNG-05	S-12.401	National Guard Military Operations and Maintenance (O&M) Projects	Reporting (ARRA 1512)	*
Department of Natural Resources and Environmental Control	10-DNR-01	S-81.041, 81.041	State Energy Program	Cash Management	**
Department of Natural Resources and Environmental Control	10-DNR-02	S-81.041, 81.041	State Energy Program	Subrecipient Monitoring	**
Department of Natural Resources and Environmental Control	10-DNR-03	S-81.041	State Energy Program	Reporting (ARRA 1512)	**

State Agency	Finding Number	CFDA No.	Program	Compliance Requirement	
Department of Natural Resources and Environmental Control	10-DNR-04	S-81.041, 81.041	State Energy Program	Allowable Costs (Effort Reporting)	*
Department of Natural Resources and Environmental Control	10-DNR-05	S-81.041, 81.041	State Energy Program	Reporting (Quarterly Reports to DOE)	**
Department of Natural Resources and Environmental Control	10-DNR-06	S-66.458	Capitalization Grants for Clean Water State Revolving Funds	Reporting (ARRA 1512)	*
Department of Natural Resources and Environmental Control	10-DNR-07	S-66.458, 66.458	Capitalization Grants for Clean Water State Revolving Funds	Subrecipient Monitoring, Davis-Bacon Act	**
Department of Natural Resources and Environmental Control	10-DNR-08	S-81.041, 81.041	State Energy Program	Reporting	**
Department of Agriculture	10-AGR-01	10.913	Farm and Ranch Lands Protection Program	Cash Management	**
Department of Agriculture	10-AGR-02	10.913	Farm and Ranch Lands Protection Program	Reporting	**
Department of Agriculture	10-AGR-03	10.913	Farm and Ranch Lands Protection Program	Special Tests and Provisions (Property Monitoring Site Visits)	**
Department of Transportation	10-DOT-01	20.205, S-20.205, 20.219	Highway Planning & Construction Cluster	Subrecipient Monitoring	**
Department of Transportation/ Delaware Transit Corporation	10-DOT-02	20.500, S-20.500, 20.507, S-20.507	Federal Transit Cluster	Subrecipient Monitoring	*
Department of Transportation/ Delaware Transit Corporation	10-DOT-03	S-20.500, S-20.507	Federal Transit Cluster	Special Tests – Separate Accountability for ARRA Funding	**
Department of Transportation	10-DOT-04	S-20.205	Highway Planning & Construction Cluster	Reporting (Section 1512)	**
Department of Transportation/ Delaware Transit Corporation	10-DOT-05	S-20.500, S-20.507	Federal Transit Cluster	Reporting (Section 1512)	*
Office of Management and Budget	10-OMB-01	All	All	Suspension and Debarment	*

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State as of and for the year ended June 30, 2010, and have issued our report thereon dated December 29, 2010. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The accompanying schedule

of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the State's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget and the Department of Finance, management of the State of Delaware, the United States Department of Health and Human Services Office of the Inspector General for Audit, and other federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is public record and its distribution is not limited.

KPMG LLP

March 30, 2011, except as to the paragraph relating to the schedule of expenditures of federal awards, which is as of December 29, 2010.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (SEFA)

CFDA NO.		GRANT NAME	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.		EXPENDITURES
		U.S. Department of Agriculture			
10.025		Plant and Animal Disease, Pest Control, and Animal Care		$	368,493.16
10.028		Wildlife Services			86,511.68
10.069		Conservation Reserve Program			35,795.10
10.086	S	Aquaculture Grants Program			17,939.00
10.163		Market Protection and Promotion			18,744.00
10.169		Specialty Crop Block Grant Program			41,895.18
10.170		Specialty Crop Block Grant Program-Farm Bill			65,380.67
10.215		Sustainable Agriculture Research and Education			
		Pass-through from University of Vermont	N7013001		21,219.59
10.458		Crop Insurance Education in Targeted States			233,514.25
10.475		Cooperative Agreements with States for Intrastate Meat and Poultry Inspection			485,007.31
10.479		Food Safety Cooperative Agreements			143,234.48
10.550		Food Distribution			2,810,180.97
		Supplemental Nutrition Assistance Program Cluster			
10.551		Supplemental Nutrition Assistance Programs		162,225,920.00	
10.561		Supplemental Nutrional Assistance Program (Administrative Funds)		11,507,567.95	
10.561	S	ARRA – Supplemental Nutritional Assistance Program (Administrative Costs)		468,026.85	
		Subtotal CFDA 10.561		11,975,594.80	
		Total Supplemental Nutrition Assistance Program Cluster			**174,201,514.80**
		Child Nutrition Cluster			
10.553		School Breakfast Program		6,339,280.09	
10.555		National School Lunch Program		24,050,049.45	
10.556		Special Milk Program for Children		30,836.09	
10.559		Summer Food Service Program for Children		2,351,786.95	
		Total Child Nutrition Cluster			**32,771,952.58**
10.557		Special Supplemental Nutrition Program for Women, Infants & Children			15,810,292.37
10.558		Child and Adult Care Food Program			13,041,743.29
10.560		State Administrative Expenses for Child Nutrition			923,800.69
		Emergency Food Assistance Cluster			
10.568		Emergency Food Assistance Program (Administrative Costs)		102,097.69	
10.568	S	Emergency Food Assistance Program (Administrative Costs)		74,552.00	
		Subtotal CFDA 10.568		176,649.69	
10.569		Emergency Food Assistance Program (Food Commodities)		1,677,058.26	
		Total Emergency Food Assistance Cluster			**1,853,707.95**
10.565		Commodity Supplemental Food Progarm			18,446.85
10.574		Team Nutrition Grants			79,499.50
10.579	S	Child Nutrition Discretionary Grants Limited Availability			194,440.45
10.582		Fresh Fruit and Vegetable Program			812,410.27
10.664		Cooperative Forestry Assistance			222,050.49
10.675		Urban and Community Forestry Program			185,627.47
10.676		Forest Legacy Program			15,998.55
10.678		Forest Stewardship Program			92,964.69
10.680		Forest Health Program			55,964.29
10.688	S	Recovery Act of 2009: Wildlife Fire Management			173,944.30
10.769		Rural Business Enterprise Grants			83,154.29
10.902		Soil and Water Conservation			48,806.39
10.912		Environmental Quality Incentives Program			33,865.21
10.913		Farm and Ranch Lands Protection Program			8,944,099.99
10.914		Wildlife Habitat Incentive Program			2,329.27
		Total U.S. Department of Agriculture			**253,894,529.08**

CFDA NO.		GRANT NAME	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.		EXPENDITURES
		U.S. Department of Commerce			
		Public Works and Economic Development Cluster			
11.300	S	Investments for Public Works and Economic Development Facilities		90,054.67	
		Total Public Works and EDF Cluster			**90,054.67**
11.405		Andromous Fish Conservation Act Program			685.75
11.419		Coastal Zone Management Administration Awards			1,780,008.53
11.420		Coastal Zone Management Estuarine Research Reserves			635,858.48
11.439		Marine Mammal Data Program			75,440.00
11.472		Unallied Science Program			64,961.66
11.474		Atlantic Coastal Fisheries Cooperative Management Act			148,880.77
11.555		Public Safety Interoperable Communications Grant Program			3,395,690.69
11.558	S	State Broadband Data and Development Grant Program			7,811.86
		Total U.S. Department of Commerce			**6,199,392.41**
		U.S. Department of Defense			
12.100		Aquatic Plant Control			13,377.00
12.113		State Memorandum of Agreement Program for the Reimbursement of Technical Services			37,203.86
12.401		National Guard Military Operations and Maintenance (O&M) Projects		19,867,615.63	
12.401	S	National Guard Military Operations and Maintenance (O&M) Projects		1,906,004.88	
		Total National Guard Military Operations and Maintenance			21,773,620.51
12.Unassigned		State Grant Number 08-07-24-04			149,199.20
		Total U.S. Department of Defense			**21,973,400.57**
		U.S. Department of Housing and Urban Development			
14.235		Supportive Housing Program			1,457,031.99
14.401		Fair Housing Assistance Program - State and Local			124,040.71
14.900		Lead-Based Paint Hazard Control In Privately-Owned Housing			1,146,889.82
		Total U.S. Department of Housing and Urban Development			**2,727,962.52**
		U.S. Department of the Interior			
		Fish and Wildlife Cluster			
15.605		Sport Fish Restoration		2,904,539.93	
15.611		Wildlife Restoration		1,826,923.27	
		Total Fish and Wildlife Cluster			**4,731,463.20**
15.615		Cooperative Endangered Species Conservation Fund			328,930.61
15.616		Clean Vessel Act			5,366.87
15.622		Sportfishing and Boating Safety Act			56,339.56
15.633		Landowner Incentive			744,466.84
15.634		State Wildlife Grants			383,314.21
15.644		Federal Junior Duck Stamp Conservation and Design			787.06
15.809		National Spatial Data Infrastructure Cooperative Agreements Progr			23,706.49
15.904		Historic Preservation Fund Grants-In-Aid			400,304.82
15.916		Outdoor Recreation, Acquisition, Development and Planning			160,629.66
15.930		Chesapeake Bay Gateways Network			3,429.93
15.Unassigned		State Grant Number 09-03-03-01			2,886.00
		Total U.S. Department of the Interior			**6,841,625.25**

STATE OF DELAWARE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2010

CFDA NO.		GRANT NAME	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.	EXPENDITURES
		U.S. Department of Justice		
16.017		Sexual Assault Services Program		2,308.39
16.202		Prisoner Reentry Initiative Demonstration (Offender Reentry)		197,588.92
16.203		Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM)		83,164.94
16.523		Juvenile Accountability Incentive Block Grants		217,335.26
16.540		Juvenile Justice and Delinquency Prevention - Allocation to States		589,878.73
16.543		Missing Children's Assistance		102,178.43
16.544		Gang-Free Schools and Communities Community-Based Gang Intervention		141,552.89
16.547		Victims of Child Abuse		56,991.63
16.548		Title V - Delinquency Prevention Program		197,427.05
16.550		State Justice Statistics Program for Statistical Analysis Centers		50,800.00
16.564		Crime Laboratory Improvement Combined Offender DNA Index System Backlog Reduction		32,143.37
16.575		Crime Victim Assistance		1,335,266.04
16.576		Crime Victim Compensation		1,358,512.68
16.580		Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program		257,124.84
16.582		Crime Victim Assistance/Discretionary Grants		35,006.20
16.585		Drug Court Discretionary Grant Program		52,855.79
16.588		Violence Against Women Formula Grants	859,847.43	
16.588	S	Violence Against Women Formula Grants	289,144.43	
		Total Violence Against Women Formula Grant		1,148,991.86
16.593		Residential Substance Abuse Treatment for State Prisoners		3,746.04
16.595		Community Capacity Development Office		110,505.24
16.606		State Criminal Alien Assistance Program		48,325.32
16.607		Bulletproof Vest Partnership Program		75,791.25
16.609		Community Prosecution and Project Safe Neighborhoods		40,545.21
16.710		Public Safety Partnership and Community Policing Grants		797,268.82
16.727		Enforcing Underage Drinking Laws Program		305,532.40
16.734		Special Data Collections and Statistical Studies		39,762.78
16.735		Protecting Inmates & Safeguarding Communities		518,641.29
16.736		Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault	33,072.04	
16.736	S	Transitional Housing Assistance for Victims of Domestic Violence, Dating Violence, Stalking, or Sexual Assault	74,428.07	
		Total Transitional Housing Assistance		107,500.11
16.738		Edward Byrne Memorial Justice Assistance Grant Program		1,458,363.98
16.740		Statewide Automated Victim Information Notification (SAVIN) Program		127,175.74
16.741		Forensic DNA Capacity Enhancement Program		257,691.47
16.742		Paul Coverdell Forensic Sciences Improvement Grant Program		192,068.90
16.744		Anti Gang Initiative		61,777.64
16.748		Convicted Offender and/or Arrestee DNA Backlog Reduction Program		32,482.50
16.750		Support for Adam Walsh Act Implementation Grant Program		119,732.00
16.800	S	Recovery Act-Internet Crimes Against Children Task Force Program		46,890.70
16.801	S	Recovery Act-State Victim Assistance Formula Grant Program		366,926.48
16.802	S	Recovery Act-State Victim Compensation Formula Grant Program		126,429.80
16.803	S	Recovery Act-Edward Byrne Memorial Justice Assistance Grant (JAG Program)		1,727,332.91
16.Unassigned		State Grant Number #09-06-30-03 Asset Forfeiture-Justice		436.85
		Total U.S. Department of Justice		**12,424,054.45**

STATE OF DELAWARE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

CFDA NO.		GRANT NAME	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.		EXPENDITURES
		U.S. Department of Labor			
17.002		Labor Force Statistics			629,985.00
17.005		Compensation and Working Conditions			75,068.82
17.203		Labor Certification for Alien Workers			126,318.03
		Employment Services Cluster			
17.207		Employment Service / Wagner-Peyser Funded Activities		2,402,556.02	
17.207	S	Employment Service / Wagner-Peyser Funded Activities		459,457.03	
		Subtotal CFDA 17.207		2,862,013.05	
17.801		Disabled Veterans' Outreach Program (DVOP)		124,619.00	
17.804		Local Veterans' Employment Representative Program		373,366.72	
		Total Employment Services Cluster			**3,359,998.77**
17.225		Unemployment Insurance		177,685,809.38	
17.225	S	Unemployment Insurance		185,536,408.26	
		Total Unemployment Insurance			363,222,217.64
17.235		Senior Community Service Employment Program		2,495,478.80	
17.235	S	Senior Community Service Employment Program		502,122.09	
		Total Senior Community Service Employement Program			2,997,600.89
17.245		Trade Adjustment Assistance			66,335.35
		WIA Cluster			
17.258		WIA Adult Program		329,990.46	
17.258	S	WIA Adult Program		918,578.45	
		Subtotal CFDA 17.258		1,248,568.91	
17.259		WIA Youth Activities		4,162,647.64	
17.259	S	WIA Youth Activities		2,374,665.18	
		Subtotal CFDA 17.259		6,537,312.82	
17.260		WIA Dislocated Workers		1,993,521.40	
17.260	S	WIA Dislocated Workers		1,711,970.31	
		Subtotal CFDA 17.260		3,705,491.71	
		Total WIA Cluster			**11,491,373.44**
17.266		Work Incentives Grant			133,930.75
17.267		Incentive Grants- WIA Section 503			76,851.10
17.269		Community Based Job Training Grants			155,774.04
17.271		Work Opportunity Tax Credit Program			5,815.26
17.275	S	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors			296,466.00
17.504		Consultation Agreements			489,413.71
17.505		OSHA Data Initiative			31,671.34
		Total U.S. Department of Labor			**383,158,820.14**
		U.S. Department of Transportation			
20.106		Airport Improvement Program - FAA			149,620.93
20.218		National Motor Carrier Safety			1,077,844.05
20.237		Commercial Vehicle Information Systems and Networks			50,610.18
		Highway Planning and Construction Cluster			
20.205		Highway Planning and Construction		34,524.16	
20.205		Highway Planning and Construction		169,781,041.39	
20.205	S	Highway Planning and Construction		41,400,134.82	
		Subtotal CFDA 20.205		211,215,700.37	
20.219		Recreational Trails Program		689,908.29	
		Total Highway Planning and Construction Cluster			**211,905,608.66**

CFDA NO.		GRANT NAME	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.		EXPENDITURES
		Federal Transit Cluster			
20.500		Federal Transit-Capital Investment Grants		3,083,053.74	
20.500	S	Federal Transit-Capital Investment Grants		632,603.00	
		Subtotal CFDA 20.500		3,715,656.74	
20.507		Federal Transit-Formula Grants		10,591,525.01	
20.507	S	Federal Transit-Formula Grants		3,034,349.59	
		Subtotal CFDA 20.507		13,625,874.60	
		Total Federal Transit Cluster			**17,341,531.34**
		Transit Services Programs Cluster			
20.513		Capital Assistance Program for Elderly Persons and Persons with Disabilities		472,035.00	
20.516		Job Access Reverse Commute		428,132.00	
20.521		New Freedom Program		301,515.41	
		Total Transit Services Programs Cluster			**1,201,682.41**
20.505		Federal Transit-Metropolitan Planning Grants			393,986.19
20.509		Formula Grants for Other Than Urbanized Areas		434,929.58	
20.509	S	Formula Grants for Other Than Urbanized Areas		2,957,741.00	
		Total Formula Grants for Other Than Urbanized Areas			3,392,670.58
20.514		Public Transportation Research			3,747.00
20.515		State Planning and Research			22,661.00
20.519		Clean Fuels			3,008,331.00
		Highway Safety Cluster			
20.600		State and Community Highway Safety		1,975,020.07	
20.601		Alcohol Impaired Driving Countermeasures Incentive Grants I		409,017.81	
20.602		Occupant Protection Incentive Grants		94,101.66	
20.609		Safety Belt Performance Grants		286,479.65	
20.610		State Traffic Safety Information System Improvement Grants		641,737.31	
20.612		Incentive Grant Program to Increase Motorcyclist Safety		159,889.57	
20.613		Child Safety and Child Booster Seats Incentive Grants		86,628.23	
		Total Highway Safety Cluster			**3,652,874.30**
20.607		Alcohol Open Container Requirements			36,344.92
20.700		Pipeline Safety			49,632.91
20.703		Interagency Hazardous Materials Public Sector Training and Planning Grants			121,933.80
20.721		PHMSA Pipeline Safety Program One Call Grant			727.50
20.Unassigned		State Grant Number 07-05-15-33 and 08-03-18-01			2,438,345.50
		Total U.S. Department of Transportation			**244,848,152.27**
		U.S. Department of Treasury			
21.Unassigned		State Grant Number 08-08-11-01 and 08-08-11-02			85,695.79
		Total U.S. Department of Treasury			**85,695.79**
		Equal Employment Opportunity Commission			
30.001		Employment Discrimination - Title VII of the Civil Rights Act of 1964			281,526.71
		Total Equal Employment Opportunity Commission			**281,526.71**
		General Services Administration			
39.011		Help American Vote Act Requirement Payments			562,651.58
		Total General Services Administratior			**562,651.58**

CFDA NO.		GRANT NAME	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.	EXPENDITURES	
		National Foundation on Arts and the Humanities			
45.024		Promotion of the Arts-Grants to Organizations and Individuals			5,000.00
45.025		Promotion of the Arts - Partnership Agreements		682,349.06	
45.025	S	Promotion of the Arts - Partnership Agreements		269,983.30	
		Total Promotion of the Arts - Partnership Agreements			952,332.36
45.310		Grants to States			570,380.35
45.312		Institute of Museum and Library Services-National Leadership Grant			4,876.19
		Total National Foundation on Arts and the Humanities			**1,532,588.90**
		National Science Foundation			
47.076		Education and Human Resources			72,759.66
47.080		Office of Cyberinfrastructure		48,110.90	
		Pass-through from University of Delaware	N9021903	30,876.07	
			N9091602	22,861.91	
			N9091603	19,150.27	
				72,888.25	
					120,999.15
		Total National Science Foundation			**193,758.81**
		U.S. Department of Veterans Administration			
64.101		Burial Expenses Allowance for Veterans			50,558.18
64.203		State Cemetery Grants			1,452,668.85
		Total U.S. Department of Veterans Administration			**1,503,227.03**
		U.S. Environmental Protection Agency			
66.001		Air Pollution Control Program Support			1,133,305.81
66.032		State Indoor Radon Grants			97,806.30
66.034		Surveys Studies, Investigations Demonstrations and Special Purpose Activities Relating to the Clean Air Act			250,507.99
66.036		Clean School Bus USA			209,336.60
66.040		State Clean Diesel Grant Program		125,051.34	
66.040	S	State Clean Diesel Grant Program		707,721.12	
		Total State Clean Diesel Grant Program			832,772.46
66.202		Congressionally Mandated Projects			41,434.52
66.419		Water Pollution Control State and Interstate Program Support			1,382,077.76
66.432		State Public Water System Supervision			475,583.31
66.433		State Underground Water Source Protection			56,555.24
66.454		Water Quality Management Planning		104,927.52	
66.454	S	Water Quality Management Planning		87,333.00	
		Total Water Quality Management Planning			192,260.52
66.458		Capitalization Grants for Clean Water State Revolving Funds		3,092,448.89	
66.458	S	Capitalization Grants for Clean Water State Revolving Funds		3,949,597.76	
		Total Capitalization Grants for Clean Water State Revolving Funds			7,042,046.65
66.460		Nonpoint Source Implementation Grants			1,380,493.74
66.461		Wetland Program Grants			166,612.20
66.466		Chesapeake Bay Program			408,339.05
66.467		Wastewater Operator Training Grant Program (Technical Assistance)			4,638.72
66.468		Capitalization Grants for Drinking Water State Revolving Funds		7,685,141.39	
66.468	S	Capitalization Grants for Drinking Water State Revolving Funds		10,600,609.26	
		Total Capitalization Grants for Drinking Water State Revolving Funds			18,285,750.65
66.472		Beach Monitoring and Notification Program Implementation Grants			194,463.49

CFDA NO.		GRANT NAME	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.		EXPENDITURES
66.479		Wetland Program Grants-State Tribal Environment Outcome Wetlands Demo Program			146,729.50
66.511		Office of Research and Development Consolidated Research			244.38
66.605		Performance Partnership Grants			265,720.00
66.608		Environmental Information Exchange Network Grant Program			173,614.08
66.707		TSCA Title IV State Lead Grants Certification of Lead Based Paint Professionals			106,017.67
66.708		Pollution Prevention Grants Program			50,834.41
66.801		Hazardous Waste Management State Program Support			742,807.51
66.802		Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements			302,557.08
66.804		Underground Storage Tank Prevention, Detection and Compliance Program			378,644.70
66.805		Leaking Underground Storage Tank Trust Fund Program Corrective Action Program		480,859.72	
66.805	S	Leaking Underground Storage Tank Trust Fund Program Corrective Action Program		227,117.32	
		Total Tank Trust Fund Program			707,977.04
66.809		Superfund State and Indian Tribe Core Program Cooperative Agreements			617,825.37
66.817		State and Tribal Response Program Grants			281,517.55
66.818		Brownfields Assessment & Cleanup Cooperative Agreements			120,261.00
		Total U.S. Environmental Protection Agency			**36,048,735.30**
		U.S. Department of Energy			
81.041		State Energy Program		134,488.64	
81.041	S	State Energy Program		10,908,752.96	
		Total State Energy Program			11,043,241.60
81.042		Weatherization Assistance for Low-Income Persons		981,606.15	
81.042	S	Weatherization Assistance for Low-Income Persons		4,128,318.22	
		Total Weather Assistance for Low-Income Persons			5,109,924.37
81.122	S	Electricity Delivery and Energy Reliability, Research, Development & Analysis			73,485.05
81.127	S	Energy Efficient Appliance Rebate Program			835,500.00
81.128	S	Energy Efficient and Conservation Block Grant Program			268,538.68
		Total U.S. Department of Energy			**17,330,689.70**
		U.S. Department of Education			
84.002		Adult Education - State Grant Program			1,559,546.79
		Title I, Part A Cluster			
84.010		Title I Grants to Local Educational Agencies		38,337,222.08	
84.389	S	Title I Grants to Local Educational Agencies, Recovery Act		11,924,575.62	
		Total Title 1, Part A Cluster			**50,261,797.70**
84.011		Migrant Education - State Grant Program			246,189.15
84.013		Title I Program for Neglected and Delinquent Children			532,977.90
84.018		International; Overseas Seminars Abroad Bilateral Projects			5,041.93
		Special Education Cluster (IDEA)			
84.027		Special Education - Grants to States (IDEA, Part B)		31,000,826.21	
84.173		Special Education - Preschool Grants (IDEA Preschool)		1,018,915.52	
84.391	S	Special Education Grants to States, Recovery Act		11,535,134.75	
84.392	S	Special Education - Preschool Grants Recovery Act		245,563.43	
		Total Special Education Cluster			**43,800,439.91**
		Impact Aid Cluster			
84.041		Impact Aid		13,649.66	
		Total Impact Aid Cluster			**13,649.66**

CFDA NO.		GRANT NAME	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.	EXPENDITURES	
		Student Financial Assistance Cluster			
84.007		Federal Supplemental Educational Opportunity Grants		322,967.77	
84.033		Federal Work Study Program		229,186.32	
84.033	**S**	Federal Work Study Program		29,439.00	
84.063		Federal Pell Grant Program		17,543,303.04	
		Total Student Financial Assistance Cluster			**18,124,896.13**
		TRIO Cluster			
84.042		TRIO - Student Support Services		614,413.05	
84.044		TRIO - Talent Search		608,815.10	
84.047		TRIO - Upward Bound		1,588,450.93	
		Total TRIO Cluster			**2,811,679.08**
84.048		Vocational Education - Basic Grants to States			4,955,675.14
84.069		Leveraging Educational Assistance Partnership			190,660.00
		Vocational Rehabilitation Cluster			
84.126		Rehabilitation Services - Vocational Rehabilitation Grants to States		8,553,850.81	
84.390	**S**	Rehabilitation Services-Vocational Rehabilitation Grants to States, Recovery Act		771,621.31	
		Total Vocational Rehabilitation Cluster			**9,325,472.12**
84.144		Migrant Education Coordination Program			31,677.00
		Independent Living State Grants Cluster			
84.169		Independent Living - State Grants		333,632.31	
84.398	**S**	Independent Living State Grants Recovery Act		33,806.88	
		Total Independent Living State Grants Cluster			**367,439.19**
		Independent Living Services for Older Individuals Who Are Blind Cluster			
84.177		Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind		190,596.94	
84.399	**S**	Independent Living Services for Older Individuals Who are Blind Recovery Act		1,488.45	
		Total Independent Living Services For Older Individuals Who are Blind Cluster			**192,085.39**
		Early Intervention Services (IDEA) Cluster			
84.181		Special Education - Grants for Infants and Families with Disabilities		1,931,847.48	
84.393	**S**	Special Education-Grants for Infants & Families, Recovery Act		297,799.41	
		Total Early Intervention Services (IDEA) Cluster			**2,229,646.89**
84.184		Safe and Drug-Free Schools and Communities - National Program			250,678.10
84.185		Byrd Honors Scholarships			113,500.00
84.186		Safe and Drug-Free Schools and Communities - State Grants			1,272,407.98
84.187		Supported Employment Services for Individuals with Significant Disabilities			297,189.67
		Education of Homeless Children and Youth Cluster			
84.196		Education for Homeless Children and Youth		156,606.20	
84.196	**S**	Education for Homeless Children and Youth		11,833.51	
		Subtotal CFDA 84.196		168,439.71	
84.387	**S**	Education for Homeless Children and Youth Recovery Act		53,620.94	
		Total Education of Homeless Children and Youth Cluster			**222,060.65**

CFDA NO.		GRANT NAME	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.		EXPENDITURES
84.213		Even Start - State Educational Agencies			372,986.41
84.215		Fund for the Improvement of Education			941,544.50
84.243		Tech-Prep Education			232,999.86
84.265		Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training			17,948.30
84.282		Charter Schools			157,484.00
84.287		Twenty-First Century Community Learning Centers			4,322,023.36
84.293		Foreign Language Assistance			279,953.23
84.303		Technology Challenge Grants			50,000.00
84.304		Cooperative Education Exchange Program			2,194.26
		Educational Technology State Grants Cluster			
84.318		Education Technology State Grants		929,952.23	
84.386	**S**	Education Technology State Grants, Recovery Act		15,450.00	
		Total Educational Technology State Grants Cluster			**945,402.23**
84.323		Special Education-State Program Improvement Grants for Children with Disabilities			410,432.08
84.326		Special Education-Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities			61,875.55
84.330		Advanced Placement Program			555,059.09
84.331		Grants to States for Workplace and Coummunity Transition Training for Incarcerated Individuals			85,251.53
84.357		Reading First State Grants			1,407,363.55
84.358		Rural Education Acheivement Program			113,631.73
84.365		English Language Acquisition Grants			1,258,357.05
84.366		Mathematics and Science Partnerships			987,321.93
84.367		Improving Teacher Quality State Grants			12,404,439.90
84.369		Grants for State Assessments and Related Activities			4,283,443.51
		School Improvement Grants Cluster			
84.377		School Improvement Grants		435,379.01	
		Total School Improvement Grants Cluster			**435,379.01**
84.378		College Access Challenge Grant Program			233,777.04
		State Fiscal Stabilization Fund Cluster			
84.394	**S**	State Fiscal Stabilization Fund (SFSF)-Education State Grants Recovery Act		45,413,593.51	
84.397	**S**	State Fiscal Stabilization Fund (SFSF)-Government Services Recovery Act		24,539,200.16	
		Total State Fiscal Stabilization Fund Cluster			**69,952,793.67**
		Total U.S. Department of Education			**236,316,372.17**
		U.S. Department of Health and Human Services			
93.006		State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program			134,713.97
93.008		Medical Reserve Corps Small Grant Program			1,695.37
93.041		Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect, and Exploitation			31,355.81
93.042		Special Programs for the Aging-Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals			47,201.28
93.043		Special Programs for the Aging-Title III, Part D-Disease Prevention and Health Promotion Services			114,670.17
		Aging Cluster			
93.044		Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers		1,878,878.57	
93.045		Special Programs for the Aging-Title III, Part C-Nutrition Services		2,291,657.06	

CFDA NO.		GRANT NAME	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.		EXPENDITURES
93.053		Nutrition Services Incentive Program		321,371.00	
93.705	S	Aging Home-Delivered Nutrition Services for States		141,174.59	
93.707	S	Aging Congregate Nutrition Services for States		163,156.05	
		Total Aging Cluster			**4,796,237.27**
93.048		Special Programs for the Aging-Title IV and Title II Discretionary Projects			359,846.60
93.052		National Family Caregiver Support			866,925.20
93.069		Public Health Emergency Preparedness			10,239,038.14
93.089		Emergency System for Advanced Registration of Volunteer Health Professionals			17,500.00
93.103		Food and Drug Administration Research			2,449.94
93.104		Comprehensive Community Mental Healtth Services for Children with Serious Emotional Disturbances (SED)			918,081.65
93.110		Maternal and Child Health Federal Consolidated Programs			324,362.47
93.116		Project Grants and Cooperative Agreements for Tuberculosis Control Programs			309,958.95
93.127		Emergency Medical Services for Children			118,402.51
93.130		Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices			248,828.47
93.136		Injury Prevention and Control Research and State and Community Based Programs			173,877.82
93.150		Projects for Assistance in Transition from Homelessness (PATH)			365,546.00
93.165		Grants for State Loan Repayment			69,941.00
93.197		Childhood Lead Poisoning Prevention Projects State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children			114,493.29
93.217		Family Planning Services			1,256,849.93
93.236		Grants for Dental Public Health Residency Training			316,332.41
93.240		State Capacity Buildign			81,890.08
93.243		Substance Abuse and Mental Health Services Projects of Regional and National Significance			1,447,099.51
93.251		Universal Newborn Hearing Screening			236,429.75
93.259		Rural Access to Emergency Devices Grant			31,587.34
		Immunization Cluster			
93.268		Immunization Grants		7,644,921.29	
93.268	S	Immunization Grants		194,702.00	
		Subtotal CFDA 93.268		7,839,623.29	
93.712	S	ARRA Immunization		29,940.00	
		Total Immunization Cluster			**7,869,563.29**
93.279		Drug Abuse Research Programs			
		Pass-through from Treatment Institute	N9123001		5,662.77
93.283		Centers for Disease Control and Prevention, Investigations, and Technical Assistance			3,907,551.45
93.389		Research Infrastructure		208,360.58	
		Pass-through from University of Delaware	N0052102	37,182.34	
					245,542.92
93.556		Promoting Safe and Stable Families			991,973.54
		TANF Cluster			
93.558		Temporary Assistance for Needy Families		43,563,656.64	
93.714	S	ARRA Emergency Contingency Fund for Temporary Assitance for Needy Families		6,239,862.29	
		Total TANF Cluster			**49,803,518.93**
93.563		Child Support Enforcement		16,725,930.17	
93.563	S	Child Support Enforcement		451,678.61	
		Total Child Support Enforcement			17,177,608.78
93.566		Refugee and Entrant Assistance-State Administered Programs			88,793.01
93.568		Low-Income Home Energy Assistance			14,847,204.74

CFDA NO.		GRANT NAME	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.	EXPENDITURES	
		CSBG Cluster			
93.569		Community Services Block Grant		3,767,847.06	
93.569	S	Community Services Block Grant		2,929,093.41	
		Total CSBG Cluster			**6,696,940.47**
93.586		State Court Improvement Program			277,597.22
		CCDF Cluster			
93.596		Child Care Mandatory & Matching Funds of the Child Care and Development Fund		10,358,422.58	
93.575		Child Care and Development Block Grant		2,705,648.38	
93.713	S	ARRA ChildCare and Development Block Grant		3,753,452.88	
		Total CCDF Cluster			**16,817,523.84**
93.597		Grants to States for Access and Visitation Programs			76,674.36
93.599		Chafee Education and Training Vouchers Program (ETV)			112,492.40
		Head Start Cluster			
93.600		Head Start		130,560.38	
		Total Head Start Cluster			**130,560.38**
93.630		Developmental Disabilities Basic Support and Advocacy Grants			458,842.47
93.643		Children's Justice Grants to States			61,103.29
93.645		Child Welfare Services - State Grants			485,664.06
93.658		Foster Care - Title IV-E		2,824,841.36	
93.658	S	Foster Care - Title IV-E		79,857.33	
		Total Foster Care			2,904,698.69
93.659		Adoption Assistance		1,885,913.62	
93.659	S	Adoption Assistance		200,901.74	
		Total Adoption Assistance			2,086,815.36
93.667		Social Services Block Grant			4,710,788.30
93.669		Child Abuse and Neglect State Grants			102,349.74
93.671		Family Violence Prevention and Services/Grants for Battered Women's Shelters Grants to States and Indian Tribes			805,951.25
93.674		Chafee Foster Care Independent Living			602,507.46
93.723	S	ARRA-Prevention and Wellness State, Territories and Pacific Islands			5,719.40
93.725	S	ARRA-Communities Putting Prevention to Work; Chronic Disease Self-Mgmt Program			286.22
93.767		Children's Health Insurance Program			12,518,231.13
		Medicaid Cluster			
93.775		State Medicaid Fraud Control Units		1,271,610.55	
93.777		State Survey and Certification of Health Care Providers and Suppliers		1,475,436.27	
93.777	S	State Survey and Certification of Health Care Providers and Suppliers		24,235.94	
		Subtotal CFDA 93.777		1,499,672.21	
93.778		Medical Assistance Program		714,323,826.08	
93.778	S	Medical Assistance Program		109,859,471.64	
		Subtotal CFDA 93.778		824,183,297.72	
		Total Medicaid Cluster			**826,954,580.48**
93.779		Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations			200,361.28
93.791		Money Follows the Person Rebalancing Demonstration		726,345.69	
93.791	S	Money Follows the Person Rebalancing Demonstration		-3,412.22	
		Total Money Follows the Person Rebalancing Demonstration			722,933.47
93.793		Medicaid Transformation Grants			103,455.50
93.859		Pharmacology, Physiology, and Biological Chemistry Research			
		Pass-through from University of Delaware	N9020303		45,693.70
93.887		Health Care and Other Facilities			277,846.01
93.889		National Bioterrorism Hospital Preparedness Program			1,901,263.87
93.913		Grants to States for Operation of Offices of Rural Health			232,874.24

CFDA NO.	GRANT NAME	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.	EXPENDITURES
93.917	HIV Care Formula Grants		5,187,266.53
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems		242,812.35
93.939	HIV Prevention Activities Non-Governmental Organization Based		1,033.48
93.940	HIV Prevention Activities Health Department Based		2,018,565.89
93.941	HIV Demonstration, Research, Public & Professional Education Projects		62,252.31
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance		462,754.41
93.945	Assistance Programs for Chronic Disease Prevention and Control		658.00
93.946	Cooperative Agreements to Support State-Based Safe Motherhood & Infant Health Initiative Programs		104,365.42
93.958	Block Grants for Community Mental Health Services		677,530.04
93.959	Block Grants for Prevention and Treatment of Substance Abuse		6,170,452.40
93.977	Preventive Health Services Sexually Transmitted Diseases Control Grants		497,084.95
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems		12,443.90
93.991	Preventive Health and Health Services Block Grant		140,100.01
93.994	Maternal and Child Health Services Block Grant to the States		2,066,474.46
93.Unassigned	State Grant Number N8-04-30-07		75,001.00
	Total U.S. Department of Health and Human Services		**1,014,575,284.10**
	Corporation for National and Community Service		
94.002	Retired and Senior Volunteer Program		210,862.75
94.003	State Commissions		85,540.97
94.006	AmeriCorps	799,517.83	
94.006 **S**	AmeriCorps	183,234.18	
	Total AmeriCorps		982,752.01
94.007	Program Development and Innovation Grants		411.00
94.009	Training and Technical Assistance		67,005.01
	Foster Grandparent/Senior Companion Cluster		
94.011	Foster Grandparent Program	590,458.56	
	Total Foster Grandparent/Senior Companion Cluster		**590,458.56**
	Total Corporation for National and Community Service		**1,937,030.30**
	Social Security Administration		
	Disability Insurance/SSI Cluster		
96.001	Social Security - Disability Insurance	6,339,426.11	
	Total Disability Insurance/SSI Cluster		**6,339,426.11**
96.008	Social Security - Benefits Planning, Assistance, and Outreach Program		142,686.64
	Total Social Security Administration		**6,482,112.75**
	U.S. Department Homeland Security		
97.001	Special Projects		52,939.60
	Homeland Security Cluster		
97.067	Homeland Security Grant Program	6,192,872.79	
	Total Homeland Security Cluster		**6,192,872.79**
97.012	Boating Safety Financial Assistance		937,662.83
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants		37,687.50

CFDA NO.		GRANT NAME	FEDERAL/PASS-THROUGH ENTITY OTHER IDENTIFYING NO.		EXPENDITURES
97.023		Community Assistance Program State Support Services Element (CAP-SSSE)			92,955.07
97.029		Flood Mitigation Assistance			488,623.58
97.036		Public Assistance Grants			1,606,474.75
97.041		National Dam Safety Program			25,571.83
97.042		Emergency Management Performance Grants			2,319,580.86
97.043		State Fire Training Systems Grants			16,621.81
97.045		Cooperating Technical Partners			137,923.18
97.056		Port Security Grants for Critical National Seaports			17,943.75
97.070		Map Modernization Management Support			64,584.85
97.078		Buffer Zone Protection Plan (BZPP)			143,680.20
97.089		Real ID Program			746,614.17
97.116	S	Port Security Grant Program			5,243.37
		Total U.S. Department Homeland Security			**12,886,980.14**
		Total Expenditures of Federal Awards		$	**2,261,804,589.98**

Legend:

S Award made under the American Recovery and Reinvestment Act

(1) Reporting Entity

The accompanying schedule of expenditures of federal awards (SEFA) presents the activity of all federal financial assistance programs of the State of Delaware (the State), except for those programs administered by the Delaware State University, the Diamond State Port Authority, the Delaware State Housing Authority, Riverfront Development Corporation, Delaware Technical and Community College (DTCC) Foundation, and the Charter Schools. The State's reporting entity is defined in note 1 to the State's basic financial statements.

(2) Basis of Accounting

The accompanying SEFA is presented using the cash basis of accounting, except for the inclusion of noncash items as required by OMB Circular A-133 as described in note (5) below. Therefore, some amounts presented in the SEFA may differ from amounts presented in, or used in the preparation of, the State's basic financial statements.

(3) Federal Family Education Loan Program

During the Fiscal Year ended June 30, 2010, Delaware Technical and Community College processed $7,987,319 of new loans under the Federal Family Education Loan Program (CFDA 84.032). This amount is not included on the SEFA.

(4) Unemployment Insurance Funds

State unemployment tax revenues and the government and nonprofit contributions in lieu of State taxes (State UI funds) must be deposited into the Unemployment Trust Fund in the U.S. Treasury. Use of these funds is restricted to pay benefits under the federally approved State Unemployment Law. State UI funds as well as federal funds are reported in the SEFA under CFDA #17.225. The claim payments included in the SEFA at June 30, 2010 are $167,353,000.

(5) Noncash Assistance

The State is the recipient of federal financial assistance programs that do not result in cash receipts or disbursements. Noncash amounts received by the State are included in the SEFA as follows:

CFDA Number	Program Name	Amount
10.550	Food Donation (Commodities)	$ 2,750,087
10.569	Emergency Food Assistance Program (Commodities)	1,677,058
93.268	Immunization Grants (Vaccines)	6,138,886
93.268 S	Immunization Grants (Vaccines) – ARRA	194,702
10.551	Food Stamps (EBT Payments)	162,225,920
93.069	Public health Emergency Preparedness (H1N1 Vaccines)	2,858,205

(6) Supplemental Nutrition Assistance Program

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for approximately 16.38 percent of USDA's total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2010.

(7) Subrecipients

It is not practical based on current systems to provide subrecipient expenditures by federal program.

SCHEDULE OF FINDINGS & QUESTIONED COSTS

Section 1: Summary of Auditors' Results

(1) Summary of Auditors' Results

Basic Financial Statements

(a) The type of report issued by KPMG LLP on the basic financial statements: **Unqualified.**

(b) Material weaknesses in the internal control over financial reporting were disclosed by KPMG LLP in connection with the audit of the basic financial statements: **Yes.**

(c) Significant deficiencies: **Yes.**

(d) Noncompliance which is material to the basic financial statements: **No.**

Federal Awards

(e) Disclaimer of opinion identified in the internal control over major programs: **No**

(f) Material weaknesses identified in the internal control over major programs: **Yes.**

Major programs with material weaknesses:

CFDA No.	Program Name
10.558	Child and Adult Care Food Program
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster
10.913	Farm and Ranch lands Protection Program
12.401, S-12.401	National Guard Military Operations and Maintenance (O&M) Projects
17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260	Work Enforcement Act Cluster
20.205, S-20.205, 20.219	Highway Planning & Construction Cluster
S-20.500, S-20.507	Federal Transit Cluster
S-66.458, 66.458	Capitalization Grants for Clean Water State Revolving Funds
S-66.468, 66.468	Capitalization Grants for Drinking Water State Revolving Funds

CFDA No.	Program Name
S-81.041, 81.041	State Energy Program
S-81.042, 81.042	Weatherization Assistance for Low-Income Persons
84.010, S-84.389	Title I Grants to Local Educational Agencies
84.027, 84.173, S-84.391, S-84.392	Special Education Cluster
84.367	Improving Teacher Quality Grants
93.558, S-93.714	Temporary Assistance for Needy Families Cluster
93.568	Low Income Home Energy Assistance Program
S-93.563, 93.563	Child Support Enforcement

(g) Significant deficiencies identified in the internal control over major programs: **Yes.**

Major programs with significant deficiencies:

CFDA No.	Program Name
10.551, 10.561, S-10.561	Supplemental Nutrition Assistance Program Cluster
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
S-12.401, 12.401	National Guard Military Operations and Maintenance (O&M) Projects
S-17.225, 17.225	Unemployment Insurance
17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260	Work Investment Act Cluster

CFDA No.	Program Name
20.500, S-20.500, 20.507, S-20.507	Federal Transit Cluster
S-66.458, 66.458	Capitalization Grants for Clean Water State Revolving Funds
S-66.468 66.468	Capitalization Grants for Drinking Water State Revolving Funds
S-81.041, 81.041	State Energy Program
S-81.042, 81.042	Weatherization Assistance for Low-Income Persons
84.007, 84.063	Student Financial Assistance Cluster
84.010, S-84.389	Title I Grants to Local Educational Agencies, Part A, Cluster
84.027, 84.173, S-84.391, S-84.392	Special Education Cluster
84.367	Improving Teacher Quality State Grants
84.126, S-84.390	Vocational Rehabilitation Cluster
S-84.394, S-84.397	State Fiscal Stabilization Fund Cluster
93.069	Public Health Emergency Preparedness
93.268, S-93.268, S-93.712	Immunization Cluster
93.558, S-93.714	Temporary Assistance For Needy Families Cluster
S-93.563, 93.563	Child Support Enforcement
93.596, 93.525, S-93.713	Child Care Cluster
93.767	Children's Health Insurance Program
93.775, 93.777, S-93.777, 93.778, S-93.778	Medicaid Cluster

CFDA No.	Program Name
97.067	Homeland Security Grant Program

(h) The type of report issued on compliance for major programs:

Type of Opinion	Program Name
Adverse	
S-81.042, 81.042	Weatherization Assistance for Low-Income Persons
93.568	Low Income Home Energy Assistance Program
Qualified	
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster
10.558	Child and Adult Care Food Program
10.913	Farm and Ranch Lands Protection Program
12.401, S-12.401	National Guard Military Operations and Maintenance (O&M) Projects
17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260	Work Enforcement Act Cluster
20.205, S-20.205, 20.219	Highway Planning and Construction Cluster
20.500, S-20.500, 20.507, S-20.507	Federal Transit Cluster

Type of Opinion	Program Name
S-66.458, 66.458	Capitalization Grants for Clean Water State Revolving Funds
S-66.468, 66.468	Capitalization Grants for Drinking Water State Revolving Funds
S-81.041, 81.041	State Energy Program
84.010, S-84.389	Title I Grants to Local Educational Agencies, Part A, Cluster
84.027, 84.173, S-84.391, S-84.392	Special Education Cluster
84.367	Improving Teacher Quality State Grants
93.558, S-93.714	Temporary Assistance For Needy Families Cluster
S-93.563, 93.563	Child Support Enforcement
Unqualified	
10.551, 10.561, S-10.561	Supplemental Nutrition Assistance Program Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
17.225, S-17.225	Unemployment Insurance
84.007, 84.033, S-84.033, 84.063	Student Financial Assistance Cluster

Type of Opinion	Program Name
84.126, S-84.390	Vocational Rehabilitation Cluster
S-84.394, S-84.397	State Fiscal Stabilization Fund Cluster
93.069	Public Health Emergency Preparedness
93.268, S-93.268, S-93.712	Immunization Cluster
93.575, 93.596, S-93.713	Child Care Cluster
93.767	Children's Health Insurance Program
93.775, 93.777, S-93.777, 93.778, S-93.778	Medicaid Cluster
97.067	Homeland Security Grant Program

(i) Any audit findings disclosed that are required to be reported under Section 510(a) of OMB Circular A-133: **Yes.**

(j) Identification of Major Programs:

CFDA Number	Federal Award Number	Program Name
10.551, 10.561, S-10.561	1DE400401 2008IS251441 2009IE252041 2009IS251441 2009IS803641 2009IE252241 2009IS251941 2009IE251841	Supplemental Nutrition Assistance Program Cluster

CFDA Number	Federal Award Number	Program Name
	2009IS802641 2009ID250341 2010ID250341 2010IS252041 2010IS251941 2010IE251841 2010IS252241 2010IS251441 2010IS803641 2010IQ270341 891956-22118	
10.553, 10.555, 10.556, 10.559	SCHOOL LUNCH SCHOOL BREAKFAST 1DE300301 2DE300301 NSLP-00	Child Nutrition Cluster
10.557	2008IW100341/641 2009IW100341 2009IW100641 2009IW500341 2010IW500341	Special Supplemental Nutrition Program for Women, Infants & Children
10.558	1DE300301 CACFP CACFP 00	Child and Adult Care Food Program
10.913	7321J2-7-13 7321J2-9-13	Farm and Ranch Lands Protection Program
12.401, S-12.401	1001/1003/1004/1005/1010 1001/1003/1005/1040 1001\1003-1005\1007\1010 1002 1021 1021/1022/1024/1029 1023 APPEND 1623 1624 APPEND 1625 1626 APPENDIX 1023 W912L5-10-2-1001	National Guard Military Operations and Maintenance (O&M) Projects
17.225, S-17.225	UI-15790-07-55 UI-16738-08-55-A-10 UI180120955A10 UI10446530955A10 UI180129MO	Unemployment Insurance

CFDA Number	Federal Award Number	Program Name
	UI195741055A10	
17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260	AA120030250 AA137900450 2-115-Y 2-117-Y 2-119-STYY 2-120-STYY 2-147-STSY 2-709-Y 2-711-Y 2-807-Y 2-809-Y 2-905-Y 2-907-Y 3-122-Y 3-124-Y 3-126-STYY 3-146-STSY 3-262-STSY 3-703-Y 3-713-Y 3-715-Y 3-811-Y 3-813-Y 3-909-Y 3-911-Y 4-705Y 4-707Y 4-805Y AA-16020-07-55-A-10 AA-17113-08-55-A-10 AA-18631-09-55-A-10 AA-18631-6-XO AA-15471-06-55 AA-18631-6-20 EM-19298-09-60-A-10	WIA Cluster
20.205, S-20.205, 20.219	TRANSPORTATION ENHANCEMENT HAD-DE HDA-DE HEP-10-0396-384-0016 HEV-DE RTP-1404-FORESTRY RTP-1405-FORESTRY	Highway Planning and Construction Cluster
20.500, S-20.500,	DE-03-0026 DE-96-X001	Federal Transit Cluster

CFDA Number	Federal Award Number	Program Name
20.507, S-20.507		
66.458, S-66.458	CS-10000107-0 CS-10000108-0 CS-10000110-0 2W-10000209-0	Capitalization Grants for Clean Water State Revolving Funds
66.468, S-66.468	2F-093914-09-0 FS-993914050 FS-99391406 FS-99391407-0 WP-97360401-0 FS-993914-08-0 FS-99391406-0 FS-993914-09-0	Capitalization Grants for Drinking Water State Revolving Funds
81.041, S-81.041	DE-EE0000342 DE-EE0000343 DE-FG26-03R340617A008	State Energy Program
81.042, S-81.042	DE-EE0000154 DE-EE0000174 DE-FG43-04R340647	Weatherization Assistance for Low-Income Persons

CFDA Number	Federal Award Number	Program Name
84.007, 84.033, S-84.033, 84.063	P007A080812 P007A080814 P007A080815 P007A090811 P007A090812 P007A090814 P007A090815 P033A080811 P033A080812 P033A080815 P033P080814 P033A090811 P033A090812 P033A090814 P033A090815 P063P082885 P375A082885 P063P083817 P063P083468 P375A083817 P063P081233 P063P091233 P063P093468 P063P093817 P375A092885 P375A093468 P063P092885	Student Financial Assistance Cluster
84.010, S-84.389	S010A020008 S010A040008 S010A060008 S010A070008 S010A07000A S010A080008 S010A090008 S0A3A070008 S394A090053 A389A090008 H391AO90022 S389A090008 SFSF49-09 SFSF50-09 SFSF51-09 SFSF52-09	Title I Grants to Local Educational Agencies
84.027, 84.173, S-84.391,	H027A010022 H027A040022	Special Education Cluster (IDEA)

CFDA Number	Federal Award Number	Program Name
S-84.392	H027A050022 IDEA-B HR 11-06 IDEA-B SSA 9-08 H027A060022 H027A1010022 H027060022 HO27A060022 H027A070022 H027A080022 H027A090022 IDEA B SSA 05-07 H173A020005 H173A020025 H173A040025 H173A050025 IDEA-BHR2-08 IDEA-B 619 SSA 2-08 IDEA B SSA H173A070025 H173A060025 H1173A050025 H173A080025 H173A090025 IDEA B SSA 02-08 IDEA B SSA 03-08 IDEA-B 619 SSA1-08 G391A090022 H391A090022 H392A090025	
84.126, S-84.390	H126A080010 H126A090010 H126A100009 H126A100011 H126A080009 H126A090009 H390A090009 H390A090010	Vocational Rehabilitation Cluster
84.367	S367A020007 S367B070008A S367A060007 S367A070007 S367A080007 S367A090007 S367B090008A S367B080008	Improving Teacher Quality State Grants

CFDA Number	Federal Award Number	Program Name
S-84.394, S-84.397	S394A090053 S397A090053	State Fiscal Stabilization Fund Cluster
93.069	1H75TP000340-01 5U90TP316980-09 5U90TP316980-10	Public Health Emergency Preparedness
93.268, S-93.268, 93.712	2H23IP322567-06 5H23IP322567-07	Immunization Cluster
93.558, S-93.714	G-0702DETANF G-0802DETANF G-0902DETANF G-1002DETANF 0901DETAN2 3263TFSY G1001DETAN2	Temporary Assistance for Needy Families Cluster
93.563, S-93.563	0804DE4004 0904DE4004 1004DE4002 1004DE4004	Child Support Enforcement
93.568	G-09B1DELIEA G-10B1DELIEA	Low-Income Home Energy Assistance
93.575, 93.596, S-93.713	G-0601DECCDF G-0701DECCDF G-0801DECCDF 07072507A 07072507B 07072507C G-0901DECCDF 1001DECCDF 2009G9966005 G1001DECCDF G0901DECCD7	Child Care Cluster
93.767	05-0705DE5021 05-0805DE5021 05-0905DE5021	Children's Health Insurance Program
93.775, 93.777, S-93.777, 93.778, S-93.778	010901DE5050 05-0805-DE-5000 050905DE5002 050905DE5000 05-0905-DE-5001 05-0805DE5028/5048 MT5048 MP5028 09INC-FMAP	Medicaid Cluster

CFDA Number	Federal Award Number	Program Name
	01-1001-DE-5050 05-0005-DE-5000 05-1005-DE-5001 05-1005-DE-5002 05-1005-DE-5ASC 05-01005DEARRA 05-1005DE5028 05-1005DE5048	
97.067	2005-GE-T5-0011 2006-GE-T6-0060 2007-GE-T7-0020 2007RLT7K104 2008-GE-T8-0024 2007-DE-T7-0020 2008GET70020 2009SST90038	Homeland Security Cluster

(k) Dollar threshold used to distinguish between Type A and Type B programs: **$6,785,414.**

(l) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: **No.**

(2) Findings Related to the Basic Financial Statements Reported in Accordance with *Government Auditing Standards:*

Five findings related to the basic financial statements for the year ended June 30, 2010 were reported in accordance with *Government Auditing Standards* by KPMG LLP. See ***Section 2*** of the Schedule of Findings and Questioned Costs for items **2010-01** to **2010-05**.

SCHEDULE OF FINDINGS & QUESTIONED COSTS

Section 2: Financial Statement Findings

2010-01. Lack of Controls over the Comprehensive Annual Financial Report (CAFR) Preparation (associated with prior year findings 2009-01, 2008-1, 2008-05, 2007-01, 06-FIN-01, 06-FIN-02, 05-FIN-01, 05-FIN 02, 04-FIN-01, 04-FIN-02, 03-FIN-01, 03-FIN-02)

Background/Condition

During fiscal year 2008, the Division of Accounting (DOA) implemented a new process to prepare the State's CAFR using an ad-hoc report writer software program, CAFR 2000. CAFR 2000 assisted the State in producing the financial statements and eliminated a portion of the manual process. DOA continues to refine the State's financial reporting process to produce more accurate and timely financial statements. However, due to the decentralized organizational structure of the State, the CAFR preparation process still entails compiling worksheets, completing reconciliations, customizing reports and recording various adjustments. The many sources of information and the extent of modification necessary to such information results in a financial reporting process that is highly complex and susceptible to errors. There was an internal review of the draft CAFR prior to submitting the document for audit, and the process produced a document that continues to be improved from the prior years. While a timeline was developed for the completion of major milestones for the CAFR process and the financial statements were ultimately completed by the deadline, some of the significant deadlines were not met due to the complexity of the process and the need to obtain a significant portion of financial data from the various agencies and other entities that are included within the State's reporting entity.

The State's financial reporting process is dependent on cooperation from the State's component units and other agencies. The component units and several large funds have separate audits that need to be coordinated. When there is not a separate audit, in order to provide financial information in accordance with generally accepted accounting principles (GAAP), accrual accounting packages (GAAP packages) are completed annually by personnel in departments and agencies across the State. As a result, there are many manual processes completed by agency/department personnel. These processes include the development of accounts receivables and related allowances for uncollectible accounts, accruals of State obligations, the development of construction in progress related to capital assets, and the capture of cash and investment balances controlled outside of the Treasurer's Office. Many of the agencies use systems outside of the current statewide accounting system to gather and track the required information. This adds to the complexity of the year-end reporting and reconciliation process. In addition, the GAAP package reporting process includes the preparation of over 125 packages and relies heavily on agency personnel, many of whom lack the necessary experience and accounting background to properly complete the packages. DOA conducts training on the preparation of the packages and conducts internal reviews of the material packages to ensure that amounts are accurate and properly supported. However, various errors went undetected as follows:

<u>Compensated Absences</u>

During our testing of compensated absences, we selected a total of twenty-seven (27) employees from various State agencies. Fourteen (14) of the twenty-seven (27) employees selected were from the Delaware State Police (DSP) agency. We found errors in the vacation and/or sick leave

calculations for eleven (11) DSP employees of the fourteen (14) DSP employees selected. Of the eleven (11) errors, eight (8) errors related to uniformed officers. Uniformed officers accrue an entire year of vacation and holiday time at the beginning of each year (January 1st). For the 2010 calendar year, the DSP's system was not properly updated to reflect the actual vacation/holiday accrual for 2010; instead the system was calculating the accrual using the 2009 vacation/holiday accrual amounts, resulting in a known overstatement of approximately $6,400. In addition, one (1) of these officers retired in late June. However, his vacation accrual for 2010 was not prorated for his retirement until after the GAAP package was generated, resulting in a known understatement of approximately $8,400.

For three (3) of the civilian employees, there were system programming errors and the variables used in the calculation that were not correctly defined. This resulted in incorrect data recorded in the GAAP packages, resulting in a known understatement of $800 and known overstatement of approximately $925. Although the known amounts of the errors are immaterial to the State's financial statements, the error rate of 41% when extrapolated over the entire compensated absence balance of $162.4 million results in a potential understatement of $13.7 million.

General Fund Expenditures

During our testing over general fund expenditures, we found three (3) errors where expenditures were initially overstated as follows:

Delaware Economic Development Office (DEDO)

The first two (2) errors relate to two (2) small business loans in the amount of $13.7 million. We noted that although the payment voucher and related checks were processed prior to June 30, 2010, the loans were not fully approved and the loan agreements were not signed prior to the processing of the transaction and after the fiscal year-end. As such, expenditures for fiscal year 2010 were originally overstated and required an audit adjustment of $13.7 million. In addition, we noted that controls in place over the approval of loans were circumvented to allow for the processing of the payment vouchers and related checks prior to final approval of the loans and an executed loan agreements which is discussed below in finding 2010-04.

Office of Management and Budget (OMB)

The third error relates to the double-processing of a $6.4 million payment to the State's insurer for weekly for healthcare claims paid by the insurer. On June 28, 2010, a payment voucher was properly processed for an Automatic Clearing House (ACH) payment. However, due to a malfunction in the system, all ACHs initiated on that date were processed as checks. This check was subsequently lost in the mail. A second payment voucher was prepared and processed for this transaction; however the original transaction was not appropriately voided in the system, resulting in an overstatement of $6.4 million in expenditures. We also noted that State did not properly void the original missing check until October 14, 2010, when we brought this error to management's attention.

Search for Unrecorded Liabilities

We noted numerous errors during our search for unrecorded liabilities in the general, federal, and capital projects funds. In all three (3) funds, we noted that numerous invoices were not properly accrued. Specifically, we noted the following:

- In the general and federal funds, a critical payment was made during the beginning of July 2010 during the time when the State went "live" with its new accounting system. In order for this payment to be made immediately, the payment was initially charged to the DOA and was later re-coded to the proper agency, the State's Department of Health and Human Services. However, when the payment was re-coded, the entire amount of the invoice was offset against the DOA's general fund, instead of properly offset against both the general and federal funds. Additionally, we noted that the invoice only partially related to fiscal year 2010 expenditures however; the entire invoice was accrued as of year-end.
- Two (2) general fund expenditures related to service periods that crossed the State's fiscal year-end; however, the accrual was not properly pro-rated between fiscal years. One (1) of these expenditures was related to the re-issuance of a payment that was processed and recorded prior to June 30, 2010, resulting in this expenditure being recorded twice.
- One (1) invoice for services that occurred in fiscal year 2010 was not properly accrued in the federal fund as of June 30, 2010 and one (1) invoice for services that occurred in fiscal year 2011 was improperly accrued in the federal fund as of June 30, 2010.
- Four (4) expenditures in the capital projects fund related to service periods that crossed the State's fiscal year-end, however the accrual was not properly pro-rated between fiscal years. Three (3) invoices were for services performed in during fiscal year 2010, but not properly accrued as of June 30, 2010.

The aggregate net overstatement in the general and federal funds was $18.6 million and $19.9 million, respectively. The net understatement in the capital projects fund was $940 thousand.

Taxes Receivable

During our testing over the taxes receivable GAAP package, we noted that the allowance for doubtful accounts calculation was inconsistent with the revised methodology implemented during fiscal year 2009. Although, the Division of Revenue revised its GAAP package, we noted that the revised GAAP package still contained several material errors, resulting in an overstatement of $8 million in taxes receivable.

Grants Receivable

During our review of the Department of Health and Social Services (HSS)' GAAP package, we noted that the agency accrued liabilities for invoices that did not relate to fiscal year 2010. In addition to improperly accruing expenditures in the incorrect accounting period, HSS also improperly recorded grants receivables for these expenditures amounting to approximately $14 million. As these are reimbursement-basis grants, the receivable should not be recorded until the

expenditures are actually paid by the State, which is when the State is eligible to receive the reimbursement.

Lastly, we obtained the request for the drawdown of federal grants for the sixty (60) day period following year- end, which represents the State's period of availability for recognizing grant revenue. We noted that the entire amount of all receivables was recorded as revenue for the year-ending June 30, 2010. However, based on our analysis, we noted that approximately $17.9 million should have been recorded as deferred revenue based on the State's period of availability.

Grant Advances

During our testing over grant revenue, one (1) of the one hundred and eighty-four (184) items tested was identified as a grant advance. However, the entry to record this transaction was incorrect and resulted in an overstatement of revenues and expenses and an understatement to deferred revenue in the federal fund amounting to approximately $16 million.

Unemployment Insurance Allowance for Uncollectible Accounts

The Unemployment Insurance (UI) allowance for uncollectible accounts was properly calculated by management; however, the balance was incorrectly reported when recorded in the UI Trust financial statements. This resulted in an overstatement of $511 thousand in the allowance for uncollectible accounts. Additionally, the UI's net tax receivable balance for the current year was understated by approximately $2.9 million due to an unexpected increase in collections subsequent to the fiscal year-end which resulted in an overstatement of approximately $2.9 million in the taxes receivable allowance for uncollectible accounts.

UI Federal Expenditure Reporting

Approximately $220 million dollars of federal expenditures and the related revenues were erroneously excluded from the UI Trust Fund's compiled financial statements and required adjustment.

Capital Asset Footnote Disclosure

The Construction Work-in-Progress (CWIP) roll-forward, prepared by the DOA, details the State's CWIP additions and deletions for the fiscal year. The amounts per the roll-forward, as originally presented in the State's capital asset note disclosure, did not agree to the underlying supporting schedules as CWIP additions and deletions were netted when the note disclosure was prepared. These balances should have been separately disclosed in the notes to the financial statements. CWIP additions were understated and deletions were overstated by $2.7 million.

Implementation of New Accounting Pronouncement - Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB No. 51)

There is no formal, documented process in place over the tracking and monitoring of employee hours incurred related to internally-developed software, as prescribed by GASB No. 51. In

addition, during our testing of the GASB No. 51 implementation over easement additions, we noted four (4) errors where the amount recorded did not agree to supporting documentation. Additionally, we noted four (4) errors where no supporting documentation was provided. These errors amounted to a most likely overstatement of $13.8 million.

Encumbrances

The State's Budget and Accounting Manual requires that encumbrances be established based on appropriated dollars at the time that the related contract is executed. We noted one (1) instance in our testing of thirty-one (31) encumbrances where an encumbrance of $1 was created at the time of contract execution as the funding had not yet been appropriated. We also noted that one (1) of the eight (8) school districts visited had unencumbered funds related to a multi-million dollar, long-term contract in order to meet its immediate needs of funding current expenditures. The long-term encumbrances were re-established once additional funding became available. Such manipulation of encumbrances circumvents the State's established budgetary controls.

Pollution Remediation Obligation (PRO) Estimate

During our testing over the PRO estimate, we noted several errors in the spreadsheet used to estimate the liability. One (1) of the three (3) PRO additions tested were calculated using incorrect inputs, such as the probability and term. The resulting change in the PRO liability was immaterial. Another PRO that was tested and revised due to inaccuracy in fiscal year 2009 was again examined in the fiscal year 2010 audit to determine if the estimate was appropriately calculated. We noted that estimate was again inaccurate and noted that the change in the calculation resulted in an understatement of $2.3 million.

Criteria

According to the National Council on Government Accounting (NCGA) Concept Statement No. 1, *Objectives of Financial Reporting,* "The overall goal of accounting and financial reporting for governmental units is to provide: 1) financial information useful for making economic, political and social decisions, and demonstrating accountability and stewardship; and 2) information useful for evaluating managerial and organizational performance."

In order to ensure such information is useful in decision-making and evaluating managerial and organizational performance, as well as demonstrating accountability and stewardship, controls must be properly designed, in place, and operating effectively to ensure that the State's accounting and financial information is fairly stated in accordance with GAAP and that the State's assets are appropriately safe-guarded.

Cause

Personnel Assigned

Many of the personnel assigned to complete the GAAP packages sent to DOA by the agencies are not formally-trained accountants and; therefore, do not have the necessary skills and experience to accurately prepare the GAAP packages. In addition, there was a significant amount of

turnover at the agencies with the personnel responsible for completing the GAAP packages in recent years.

Technology

The Delaware Financial Management System (DFMS) is a cash-basis financial management system that does not have the flexibility to accommodate modified and full accrual accounting, and it is difficult to obtain ad-hoc reports for financial reporting and analysis. The system does not easily identify, by fund, what cash balances are held by the Treasurer's office. As a result, reports utilized from DFMS require significant manual manipulation through spreadsheets to develop the trial balances and the CAFR.

Effect

Due to the manual processes used to compile financial statement information and the reliance on the audit process to detect and correct such errors, material misstatements to the financial statements could go undetected.

Recommendation

We recommend that management continue with its progress in refining the process used to complete the draft financial statements, notes to the financial statements, and all significant adjustments, conversion to accrual adjustments, and reconciliations. The review process should include an evaluation of the reasonableness of individual financial statement line items by an individual with sufficient accounting and financial reporting experience and knowledge of the processes at each agency to detect inconsistencies and errors. Specific focus should be placed on achieving proper accounting cutoff and valuation of accounts associated with the GAAP package process and report preparation.

Because of the complexity of the report development process, management should re-evaluate the adjustments to convert cash-basis DFMS numbers to GAAP basis and limit reconciling adjustments to required material amounts.

We encourage the State to continue to monitor the agency accountants and expand the knowledge base of personnel who have a working knowledge of GAAP. This monitoring process is critical to the successful oversight of the GAAP package process and financial reporting processes in the outside departments and agencies that report to the DOA for year-end financial reporting. In addition, due to the size and complexity of the State, we recommend that the State continue to expand its resources with additional trained accountants at the State agencies and local school districts.

We continue to recommend that the GAAP package preparation process be a priority for all entities/agencies included in the State's financial reporting entity. The importance of accurate and timely submission of financial information should be communicated to the senior management responsible for these entities/agencies. The process to transition the preparation of the GAAP package to new personnel should be planned and coordinated to maximize knowledge transfer. In addition, we recommend that the internal control resources in the DOA continue the

progress to communicate and train the agency staff year-round to improve the year-end reporting process and develop better information sources to complete the packages. For example, the capital asset review process should be completed throughout the year to ensure the agencies are appropriately capturing activity for all projects, maintaining current records, and transferring construction in process to the final asset ledger timely so the GAAP packages are complete and accurate and in accordance with State's policy and generally accepted accounting standards. The current year training on GAAP package preparation should be updated to include more theoretical basis for what should be included in the packages. Areas of focus continue to include accounting estimates, receivable balances and capital asset accounting.

We also understand that the State went "live" with its new accounting system, First State Financials, on July 1, 2010. We continue to recommend that every effort be made to consolidate as much GAAP package accrual information as practical into the new central accounting system. These items include debt, capital assets, accounts payable, accruals of payroll and other liabilities, and accounts receivable for all the agencies. The benefits of a more robust central accounting system will include a more efficient reporting process, as well as better internal controls and more complete information for management decision making throughout the year.

Lastly, we recommend that the DOA take appropriate action to reinforce the State's existing budgetary controls and controls over the approval and authorization of payments.

Views of Responsible Officials

We agree that the GAAP reporting preparation process should be a priority for all departments and school districts included in the State's financial reporting entity. To make the process more efficient, the Division of Accounting (DOA) has automated the GAAP reporting process for fiscal year 2011 by incorporating GAAP reporting functionality in the State's new accounting system, First State Financials (FSF). The automated process was designed with internal controls in place to minimize and detect inconsistencies and errors. Management will continually evaluate the GAAP reporting process and make improvements as necessary to provide for a more accurate and efficient financial reporting process.

The July 1, 2010 implementation of FSF, caused some significant challenges for entities within the State's financial reporting framework. This was due, in large part, to learning curves associated with new processes, responsibilities and user roles. For fiscal year 2011, the Division of Accounting will conduct a series of end-user trainings with the objective of providing users a better understanding of accounting concepts, system functionality, roles and responsibilities with regard to GAAP reporting. The training series is currently under review and will be finalized prior to March 31, 2011.

Division of Accounting internal controls and financial reporting personnel have remained highly involved in the design of the financial reporting requirements and testing of the GAAP package accrual process. During fiscal year 2011, internal control and financial reporting personnel will be testing and evaluating accruals in the new accounting system. We will continue to refine the process used to prepare the financial statements, notes to the statements, significant adjustments, conversion to accrual adjustments and reconciliations.

The State is best served by having trained accountants perform key accounting functions within the organization. However, due to budgetary and other personnel constraints, some of the State's financial reporting and accounting functions are performed by non-accountants. Though we expect that these constraints will continue in the near future; we will continue to train personnel on how to review financial information and appropriately account for related transactions.

First State Financials have been designed to reinforce the State's budgetary controls and controls over the approval and authorization of payments. DOA will monitor these system controls to ensure they are operating as intended and the agencies and school districts are in compliance.

2010-02. Lack of Controls over Accounting and Reporting at the Local School Districts (associated with prior year findings 2009-02, 2008-03)

Background/Conditions

The activity of the local school districts (LSDs) is consolidated into the financial information of the State and is reported to the DOA through the use of GAAP packages, as previously noted. Due to the nature of these entities, the LSDs are extremely de-centralized from the rest of the State's primary government agencies. In addition, the majority of LSD personnel with the responsibility for the preparation and submission of the financial information used in the preparation of the State's financial statements lack the necessary experience and accounting background to properly and accurately complete the GAAP packages. During the course of our audit, we selected and reviewed the financial information for 8 LSDs as follows: Brandywine, Caesar Rodney, Cape Henlopen, Colonial, Christina, Laurel, Red Clay, and Woodbridge. Although the information submitted by the local school districts is subject to review by the DOA, we noted the following:

Lack of Segregation of Duties in the Cash Management Operations

We noted a lack of segregation of duties in the cash management operations. Specifically, we noted that LSD personnel perform multiple incompatible cash management functions such as receipt, deposit, disbursement, recording and reconciling the accounts at the majority of the LSDs reviewed. We also noted several instances of no management review of important cash reconciliation functions. In addition, there were several LSD bank accounts that had significantly-aged outstanding checks.

Lack of Controls over the Payroll Human Resource Statewide Technology System (PHRST) to DFMS Reconciliation

Although the State has a policy in place requiring monthly reconciliations of PHRST to DFMS, during our review of payroll expenditures, we noted that none of the LSDs reviewed were performing appropriate reconciliations of PHRST to DFMS. Based on reconciliations that we performed of PHRST to DFMS related to these LSDs, we identified an aggregate variance between the systems of $5.3 million.

School District Review of CAFR Information

The LSDs could not provide explanations for year-to-year variances noted during our testing of the local funds as they have insufficient knowledge of how the LSD activity is compiled into the State's financial statements.

Criteria

In order to ensure financial information is useful in decision-making and evaluating managerial and organizational performance, as well as demonstrating accountability and stewardship, controls must be in place and operating effectively to ensure that the State's accounting and financial information is fairly stated in accordance with GAAP.

Cause

There is a lack of formally-trained accountants with the necessary skills to accurately prepare the financial information included in the State's financial statements. In addition, controls are not in place and operating effectively over the review of financial statement information provided by the LSDs for inclusion in the State's financial statements.

Effect

Due to the manual processes used to compile financial statement information and the reliance on the audit process to detect and correct such errors, material misstatements to the financial statements could go undetected.

Recommendations

We recommend that the DOA provide the LSDs with the appropriate level of training over GAAP package reporting requirements to ensure that financial information submitted for inclusion in the State's financial statements is accurate and transactions are recorded in accordance with GAAP. We also recommend that, with the assistance of the DOA, the LSDs perform account analyses of financial statement line items to ensure the propriety of the composition of financial statement amounts.

Views of Responsible Officials

DOA agrees with the recommendation. However, we rely on school district personnel to ensure that the information provided is accurate and in accordance with stated policies and procedures. DOA accepts ultimate responsibility for financial reporting. As such, we will continue to encourage school district management and senior level administration to assign financial related tasks to personnel who have the necessary skills and experience to accurately account for and report financial activity. We will also continue to provide trainings and other resources to local school district personnel to ensure that they have a sufficient understanding of their responsibilities with regard to the financial reporting process. Lastly, we will continue to perform periodic reviews to ensure the local school districts are adhering to the State's policies and procedures.

2010-03. Lack of Controls over Journal Entries (associated with prior year findings 2009-03, 2008-02, 2007-02, 06-FIN-05)

Background/Condition

The DOA is responsible for the oversight of the processing of financial transactions in DFMS. We selected one-hundred and thirty- five (135) journal entry transactions for testing and identified several ongoing internal control deficiencies, including the following:

- We noted that for thirty (30) journal entries, certain agencies/divisions/departments selected for review did not specify the business function or rationale to support the journal entries.
- We noted that for thirty (30) journal entries, certain agencies/divisions/departments selected for review did not provide adequate supporting documentation.
- We noted that for four (4) journal entries, certain agencies/divisions/departments provided journal entries that were not properly authorized. Personnel are not required to have journal entries approved by another individual prior to submission to DFMS.

Criteria

In order to ensure financial information is useful in decision-making and evaluating managerial and organizational performance, as well as demonstrating accountability and stewardship, controls must be in place and operating effectively to ensure that the State's accounting and financial information is fairly stated in accordance with GAAP.

Cause

Controls are not in place and operating effectively over the journal entry process. Specifically, the policies in place do not provide sufficient guidance on the type and level of support required for on-top adjustments and the managerial review controls in place are not adequate.

Effect

Controls are not adequate to ensure amounts recorded in the general ledger and the financial statements are materially correct and properly supported. In addition, as proper controls do not exist over journal entries, it is possible for management to override other manual controls through the use of journal entries.

Recommendations

We recommend that the DOA take immediate and appropriate action to ensure that journal entries are appropriately supported and reviewed prior to submission into the State's general ledger as follows:

- Agencies/divisions/departments should take the appropriate steps to ensure journal entries are properly supported. The supporting documentation should include the business function and rationale for the journal entry.

- Agencies/divisions/departments should designate an individual to prepare the journal entry within the agencies/divisions/departments and have an individual, with sufficient knowledge of accounting and the business processes, but without journal entry preparation and posting responsibilities, approve the journal entries to ensure adequate segregation of duties.

Views of Responsible Officials

In conjunction with the implementation of our new accounting system, specific roles have been assigned to users based on job responsibilities. These roles were primarily designed to ensure that duties are appropriately and consistently segregated throughout the State in accordance with governing internal controls framework.

However, management will continue to conduct periodic reviews to identify deficiencies, if any, throughout the year and determine the nature and extent of such deficiencies.

2010-04. Lack of Controls Over the Safeguarding of Assets at the Delaware Economic Development Office (DEDO)

Background/Condition

As previously noted in finding 2010-01, we noted that payment vouchers and the related checks were issued for approximately $13.7 million of small-business loans prior to June 30, 2010 and prior to the loan being fully approved and executed. At the time of our on-site procedures at DEDO in November 2010, we noted that the signed, issued checks amounting to $13.7 million had not been distributed to the recipient as the loans were still not executed. Instead, these checks were kept on- site in an unlocked filing cabinet. Through discussions with the management, it was noted that it is common practice to approve payment vouchers, process checks, and to retain the issued checks until the execution of the related loan.

Criteria

The State has a fiduciary duty to protect the assets of the State and its taxpayers. Internal controls should be properly designed, in place, and operating effectively to ensure the safeguarding of the State's assets and promote adherence to applicable laws, regulations, contracts and management directives.

Cause

Management was able to override existing controls and failed to consistently follow existing processes and procedures over the processing of loan transactions, payment vouchers and the issuance of the related checks.

Effect

Management's override of existing controls and the failure to consistently follow existing processes and procedures increases the risks of theft, fraud, violations of laws, and mismanagement of State funds.

Recommendations

We recommend that management consistently follow existing policies and procedures over the processing of loan transactions, payment vouchers, and the issuance of the related checks to ensure that all such transactions are appropriately approved and executed prior to processing payment vouchers and the related checks.

Views of Responsible Officials

In continuing with DEDO's mission to encourage companies to locate, expand or remain in Delaware, financial assistance may be offered and is often a deal maker. It is also often critical that DEDO responds quickly. Due to the conversion from DFMS to FSF Systems from June 15, 2010 through July 19, 2010, checks could not be processed. Therefore, last year certain checks were requested to avoid not having the funds available when required by the company.

Unfortunately, because of the complexity of some of these deals, the loan closings were delayed because of unanticipated problems on the client's end. It is certainly our desire to operate effectively to ensure the safeguarding of the State's assets; but unfortunately there are times when we must react to the benefits of having a company create jobs for Delaware.

We will certainly try to be consistent in following existing policies and procedures over the processing of loan transactions, payment vouchers and the issuance of checks.

2010-05. Financial Reporting At the Delaware Department of Transportation (Department) (associated with prior year findings 2009-05, 2008-10, 2008-11, 2007-03, 2007-05, 06-DOT-01)

Background/Condition, Criteria, Cause and Effect

The Department has contracted for the past several years with an outside CPA firm to compile its financial statements for the Transportation Trust Fund, for the Delaware Transit Corporation, and for the consolidated Delaware Department of Transportation entity.

The process used to obtain the necessary information for balances outside of the Transportation Trust Fund is not clearly documented, does not occur on a clear timetable, and relies heavily on one individual to provide information requested by the contractor for compilation purposes. Financial statement items impacted include receivables, payables, and capital assets, including infrastructure assets.

Additionally, there is no independent review of the information for completeness, accuracy, and conformity with generally accepted accounting principles prior to its being provided to the contractor, increasing the risk of potential undetected misstatements, errors, or omissions.

Although the timing of completion of tasks improved through more active monitoring, there is still significant reliance on one key individual. Additionally, as the State of Delaware is a complex organization with a significant amount of transactions occurring between State agencies, accounting for these transactions requires constant communication between agencies in order to properly record the financial position of each agency. During the completion of the current fiscal year audit, it was noted that the Office of Management and Budget (OMB) removed building improvement costs recorded on its books related to a building belonging to the Department. These costs have been capitalized on the books of the OMB – Facilities Management many years ago. The transfer of such costs was not timely communicated to the Department and as such a corresponding entry to record the transfer was not recorded on the 2009 financial statements. Additionally, we noted delays in gathering the information to make a determination as to the appropriate pollution remediation obligation to record on the Department's financial statements in conjunction with the adoption of GASB Statement 49, which also appeared to result from a lack of timely communications between State agencies.

Recommendation

We recommend that the Department develop, for the 2010 audit cycle, the following:

- A detailed list of balances (other than those in the Transportation Trust Fund) and what detailed reports, supporting schedules, and other documentation are needed to support the compilation of financial statements and disclosures related to those balances.
- A specific timetable of when each of the detailed reports, supporting schedules, and other documentation will be completed.
- Interim review process to evaluate data before year end to identify any issues and correct them before year end close, including communicating with other State agencies with whom the Department may have transactions that require additional accounting considerations.

- A periodic monitoring process to ensure adherence to the timetable.

We further recommend that the Department consider whether the current level of staffing is appropriate to:

- Disperse responsibility for specific reports, schedules and documentation to others within the accounting function.
- Provide for an independent review of information for completeness, accuracy and conformity with generally accepted accounting principles prior to its receipt by the compilation contractor.
- Review data throughout the year for completeness and accuracy.

Views of Responsible Officials

Management acknowledges the fact that the task associated with organizing and managing the details and reports for this audit are complex and detailed, and that communications between State agencies could be improved. The current level of staff continues to be a major problem for this effort. Unfortunately, a continued hiring freeze and lack of knowledge/expertise by other staff members has impeded the efforts to provide support to the current effort. Management will continue to work with the Human Resources Unit to identify opportunities for enhancing both expertise and staff levels. Additionally, the Finance Unit will work with the Audit Unit for assistance and guidance on automating many of the needed reports and data elements. It is anticipated that effort for the FY10 Audit will improve.

SCHEDULE OF FINDINGS & QUESTIONED COSTS

Section 3: Federal Awards Findings and Questioned Costs

This section identifies significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, as required to be reported by *Office of Management and Budget Circular A-133,* Section .510(a). This section is organized by state agency.

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Delaware Technical and Community College
Wilmington/Stanton Campus
Reference number: 10-DTC-01
Program: Student Financial Assistance Cluster (84.007, 84.063)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Special Tests and Provisions, Return of Title IV Funds

Condition:

During our testwork of Return of Title IV funds for Federal Funds at the Wilmington, Stanton campus, we noted that one of the 15 students sampled totaling $17,884 was underawarded PELL by $43.

Criteria:

When a student withdraws from class, either officially or unofficially, and is set to receive Federal monies the college must perform a Return of Title IV Funds calculation. The amount to be disbursed (returned) is based on the original award to the student multiplied by the percentage of class that they attended.

Cause:

The Student Financial Aid employee erroneously used the wrong amount for the Federal monies available to the student in their calculation. Instead of using $850 PELL award, as based on the students' Expected Family Contribution (EFC) and Cost of Attendance (COA), the employee used $675 for PELL and $100 for FSEOG or $775.

Effect:

Because this student's Return of Title IV calculation was done after the 60% point, the $850 had previously been disbursed. The Return calculation that was done had the student returning $398 instead of $355, the difference of $43 that was returned that should not have been.

Questioned Costs:

The questioned costs represent the underaward of $43.

Recommendation:

We recommend that the campus continue to review its Return of Title IV Fund calculations to ensure that the correct award amounts are being used that match the amounts in the BANNER system that were paid.

Views of Responsible Officials:

Agency Contact Name: Debra Troxler, Student Financial Aid Officer

Agency Contact Phone Number: (302) 571-5380

Corrective Action Plan:

SFA staff erroneously used the wrong PELL figure when calculating the Federal monies available to the student when performing the Return to Title IV (R2T4) calculation. The PELL amount of $675 was used to perform the calculation, instead of the correct PELL amount of $850 as based on the students' Expected Family Contribution (EFC). The correct total amount to be used in the calculation should have been $950 ($850 PELL and $100 of SEOG); instead the incorrect total of $775 ($675 PELL and $100 SEOG) was used to perform the calculation.

To avoid this problem in the future R2T4 calculations will be reviewed by two individuals to ensure that the correct amount of Title IV aid is used when performing calculations.

Anticipated Completion Date: Immediately.

Delaware Technical and Community College
Owens Campus
Reference number: 10-DTC-02
Program: Student Financial Assistance Cluster (84.007, 84.063)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Special Tests and Provisions, Return of Title IV Funds

Condition:

During our testwork of Return of Title IV funds for Federal Funds at the Owens campus, we noted that one of the 15 students sampled totaling $16,615 was underawarded PELL by $511.

Criteria:

When a student withdraws from class, either officially or unofficially, and is set to receive Federal monies the college must perform a Return of Title IV Funds calculation. The amount to be disbursed (returned) is based on the original award to the student multiplied by the percentage of class that they attended.

Cause:

An automated process reduces a student's enrollment hours to zero in the BANNER system when a student is a W1 (withdrawal) status or NS (no show) status. When a Return of Title IV calculation is done the Financial Aid Office (FAO) has to manually change the enrollment hours field in the BANNER system for the student's account to be credited. The FAO did not complete this step and the $511 was never paid because of this.

Effect:

Because this step was omitted the system was unable to pay anything for the student, so a total of $511 was not awarded.

Questioned Costs:

The questioned costs represent the underaward of $511.

Recommendation:

We recommend that the campus review its policies and checklists that it follows when completing a R2T4 calculation so that a step will not be omitted in the future.

Views of Responsible Officials:

Agency Contact Name: Veronica Oney, Student Financial Aid Officer

Agency Contact Phone Number: (302) 855-1667

Corrective Action Plan:

Due to the automated process which reduces enrollment hours to zero for the above cause, a manual process is required to insert hours to disburse aid. To prevent reoccurrences of the above finding, a report has been developed to audit this process to ensure aid is accurately disbursed. Effective at the time of discovery, the Financial Aid Office posts a tracking requirement; at the time R2T4 calculations are performed, that identifies R2T4 students per term. A process is run at the end of each term that identifies any students who have been awarded and not paid for the term. Any discrepancies are corrected at that time.

Anticipated Completion Date: Immediately.

Department of Education
Reference Number: 10-ED-01
Program: Title I Grants to Local Educational Agencies (84.010, S-84.389)
Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)
Improving Teacher Quality State Grants (84.367)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Allowable Costs (Indirect Costs)

Condition:

As noted in the prior year, the Delaware Department of Education (DOE) has provided the school districts with a template for determining their indirect cost rates. While the template properly excludes the compensation of the chief executive officer (the superintendent), there is no evidence that the operation of the immediate offices of that officer (direct reports) are being properly excluded from general management costs. While we understand the indirect cost template was updated during the last quarter of fiscal year 2010, the majority of indirect cost charges for fiscal year 2010 were still based on the prior year's template.

Criteria:

To be allowable under federal awards, indirect costs must meet the following general criteria (34 CFR section 76.568).

A "restricted" indirect cost rate (RICR) must be used for programs administered by State and local governments and their governmental subrecipients that have a statutory requirement prohibiting the use of Federal funds to supplant non-federal funds. Non-governmental grantees or subgrantees administering such programs have the option of using the RICR, or an indirect cost rate of 8 percent, unless U.S. Department of Education determines that the RICR would be lower. The formula for a restricted indirect cost rate is: RICR = (General management costs + Fixed costs) / (Other expenditures).

General management costs are costs of activities that are for the direction and control of the grantee's (or subgrantee's) affairs that are organization wide, such as central accounting services, payroll preparation and personnel management. For State and local governments, the general management indirect costs consist of (1) allocated Statewide Central Service Costs approved by the Department of Health and Human Services in a formal Statewide Cost Allocation Plan (SWCAP) as "Section I" costs and (2) departmental indirect costs. The term "general management" as it applies to departmental indirect costs does not include expenditures limited to one component or operation of the grantee. Specifically excluded from general management costs are the following costs that are reclassified and included in the "other expenditures" denominator:

(a) Divisional administration that is limited to one component of the grantee;
(b) The governing body of the grantee;
(c) Compensation of the chief executive officer of the grantee;
(d) Compensation of the chief executive officer of any component of the grantee; and
(e) Operation of the immediate offices of these officers.

Cause:

The indirect cost rate template being utilized by the school districts for the majority of fiscal year 2010 did not address the need to review and possibly exclude any immediate offices of the superintendent from its indirect cost calculation.

Effect:

If there are additional costs that should be excluded from the indirect cost amount then the indirect cost rates may be overstated.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

We continue to recommend that the DOE review its indirect cost rate template and ensure that all unallowable costs have been properly captured by the school districts and make adjustments to the template or its indirect cost rate instructions, as necessary.

Views of Responsible Officials:

Agency Contact Name: Emily Falcon

Agency Contact Phone Number: (302) 735-4040

Corrective Action Plan:

As noted above, a corrected template was distributed to the school districts during 2010. At that time, districts were asked to complete the updated template and any resultant changes to the indirect cost rates were captured. All districts are currently calculating the rate correctly and DOE will ensure that all future documentation distributed to the districts will be compliant with 34 CFR section 76.568.

Anticipated Completion Date: Completed – July 2010.

Department of Education
Department of Education
Brandywine School District
Caesar Rodney School District
Cape Henlopen School District
Christina School District
Laurel School District
Red Clay School District
Woodbridge School District
Reference Number: 10-ED-02
Program: Title I Grants to Local Educational Agencies (84.010, S-84.389)
Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)
Improving Teacher Quality State Grants (84.367)

Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Allowable Costs (Effort Reporting)

Condition:

Department of Education
Based on a sample of 3 payroll expenditures totaling $3,686 for Improving Teacher Quality, all three employees were missing time and effort reports. Total salaries and benefits charged by the Department of Education to the Improving Teacher Quality program amounted to $28,966.

Brandywine School District
Based on a sample of 27 payroll expenditures totaling $37,007, two employees totaling $3,894 charged to Title I, four employees totaling $6,633 charged to the Improving Teacher Quality State Grants program and three employees totaling $7,043 charged to the Special Education program were missing time and effort reports. It also appears that one of those Title I employees should have also been charged to Special Education instead of Title I.

In addition, the time and effort reports for one employee totaling $1,908 charged to the Improving Teacher Quality and two employees totaling $2,884 charged to the Special Education program were not signed within 3 months of the actual time being charged and one of those employee's time and effort report percentage did not agree to the actual amount charged. That employee had only 80% of their time charged to Improving Teacher Quality; however, their time and effort report indicated only 50% should have been charged, therefore resulting in an overcharge of $715. Five other time and effort reports charge to Title I totaling $6,006 were not signed.

Total salaries and benefits charged by the Brandywine School District to major federal programs amounted to $4,243,740.

Furthermore, the district made an expense correction to charge payroll costs of $31,535 to the Special Education program out of the sample of $755,945 in intrastate costs tested, but time and effort reports supporting this correction could not be located.

Caesar Rodney School District
Based on a sample of 14 payroll expenditures totaling $24,012, five employees totaling $5,860 charged to Improving Teacher Quality and two employees totaling $2,920 charged to the Special Education program were missing time and effort reports. Additionally, time and effort reports were signed prior to completion of each applicable period for two employees totaling $4,978 charged to Title I and one employee totaling $1,184 charged to the Special Education program. Total salaries and benefits charged by the Caesar Rodney School District to major federal programs amounted to $2,132,603.

Cape Henlopen School District
Based on a sample of 11 payroll expenditures totaling $20,984, two employees totaling $2,038 charged to Title I and two employees totaling $5,105 charged to the Special Education program were missing a monthly time and effort report because as we were informed, monthly time and effort reports only started being maintained for employees working on multiple programs in March of 2010. Total salaries and benefits charged by the Cape Henlopen School District to major federal programs amounted to $1,326,603.

Christina School District
Based on a sample of 31 payroll expenditures totaling $65,928, the time and effort report for one employee totaling $1,144 charged to the Special Education program was not signed until more than 3 months after the completion of the applicable period.

Laurel School District
Based on a sample of 10 payroll expenditures totaling $17,368, two employees totaling $4,739 charged to Title I, four employees totaling $7,611 charged to the Improving Teacher Quality State Grants program and one employee totaling $3,344 charged to the Special Education program were missing time and effort reports. Total salaries and benefits charged by the Laurel School District to major federal programs amounted to $785,892.

Red Clay School District
Based on a sample of 31 payroll expenditures totaling $61,603, one employee totaling $2,928 charged to Title I was missing a time and effort report. Total salaries and benefits charged by the Red Clay School District to Title I amounted to $2,313,034.

Woodbridge School District
Based on a sample of eight payroll expenditures totaling $13,720, one employee totaling $1,847 charged to Title I, four employees totaling $6,171 charged to Improving Teacher Quality and one employee totaling $2,510 charged to the Special Education program were missing time and effort reports because we were informed that these reports did not start being completed until October 2009. Furthermore, one employee's time and effort report percentage did not agree to the amount actually charged to Title I by $102 (overcharge). Total salaries and benefits charged by the Woodbridge School District to major federal programs amounted to $1,284,949.

Criteria:

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the

work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3)

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results.
- The entire time period being sampled.
- The results must be statistically valid and applied to the period being sampled. (OMB Circular A-87, Attachment B.8.h.6)

Cause:

The State Department of Education and the school districts cited above did not maintain proper and timely effort reporting for employees that were partially funded by federal programs, did not obtain semi-annual certifications for employees charged 100% to federal programs, or based their charges to federal programs on estimates and not actual time and effort.

Effect:

Salary and related costs allocated to the federal programs are not appropriately supported by semi-annual certifications or properly prepared time and effort reports.

Questioned Costs:

Known questioned costs amounted to a $102 overcharge to the Title I program and a $715 to Improving Teacher Quality. In addition, the following charges were missing time and effort reports: $20,922 for the Special Education program, $15,466 for the Title I program and $29,961 for the Improving Teacher Quality program.

Recommendation:

We recommend that the State Department of Education and the above school districts maintain properly prepared and signed personnel activity reports (effort reports) for all employees who work on multiple programs or obtain semi-annual certifications for employees that have been solely engaged in activities supported by one funding source.

Views of Responsible Officials:

Agency Contact Name: Theresa Vendrzyk Kough /Emily Falcon

Agency Contact Phone Number: (302) 857-3390 / (302) 735-4040

Corrective Action Plan:

Desk Audit Checklist was created which incorporates Time and Effort reporting. All LEAs (Local Educational Agencies) will be checked for compliance. The DOE Financial Reform Resources will also institute updated procedures to ensure that all DOE staff are completing Time and Effort reporting as appropriate. Additional guidance will be issued to LEAs to ensure that they understand the requirements for compliance.

Anticipated Completion Date: October 2011

Department of Education
Laurel School District
Woodbridge School District
Reference Number: 10-ED-03
Program: Title I Grants to Local Educational Agencies (84.010, S-84.389)
Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Allowable Costs (Intrastate Costs)

Condition:

Laurel School District
Based on a sample of 6 intrastate transactions selected for testwork totaling $62,417, supporting documentation for one intrastate transaction for $15,287 charged to the Special Education program could not be located. Overall, a sample of 40 intrastate transactions totaling $994,965 were tested for the Special Education Program.

Woodbridge School District
Based on a sample of 7 intrastate transactions selected for testwork totaling $89,469, two intrastate indirect cost transaction charges were based on budgeted indirect amounts instead of the actual direct costs incurred. These indirect budgeted charges amounted to $45,885 for the Title I program and $16,763 for the Special Education program. Overall, a sample of 40 intrastate transactions for both the Title I Program and the Special Education Program totaling $330,501 and $994,965, respectively, were tested.

Criteria:

To be allowable under federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C):

- Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- Be allocable to Federal awards under the provisions of the Circular. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
- Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- Be adequately documented.

Effect:

Costs charged to federal programs were not based on actual charges incurred and or were not supported with appropriate documentation to support their allowability.

Questioned Costs:

There are $15,287 in questioned costs associated with the one unsupported transaction. Impact of the budgeted transactions at Woodbridge is not known but could be no more than $45,885.

Recommendation:

We recommend that the school districts cited above implement policies and procedures to ensure that interstate vouchers are based upon actual costs and that appropriate supporting documentation is maintained for all processed transactions.

Views of Responsible Officials:

Laurel School District

Agency Contact Name: Meghan Mitchell

Agency Contact Phone Number: (302) 875-6100

Corrective Action Plan:

The Director of Finance will reinforce the need to ensure all transactions are fully supported and such paperwork is properly maintained and filed properly.

Anticipated Completion Date: Immediately.

Woodbridge School District

Agency Contact Name: Kevin Carson

Agency Contact Phone Number: (302) 337-7990

Corrective Action Plan:

The district will establish guidelines to ensure that indirect costs for its federal programs are based on actual direct costs incurred rather than the budgeted amounts.

Anticipated Completion Date: Immediately.

Department of Education
School Districts
Reference Number: 10-ED-04
Program: Title I Grants to Local Educational Agencies (84.010, S-84.389)
Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)
Improving Teacher Quality State Grants (84.367)
Type of Finding: Significant Deficiency
Compliance Requirement(s): Level of Effort (Maintenance of Effort)

Condition:

Based on a review of the maintenance of effort (MOE) calculations done for the overall federal programs by the eight school districts we visited, we noted the following items:

- The Brandywine School District's Facilities Acquisition amount did not agree to the annual financial statement line item.
- The Laurel School District excluded a zero placeholder for its fiscal year 2007 amount and therefore had total expenditures of $2,302,288 instead of $23,002,288.
- The Red Clay Consolidated School District's Capital Outlay and Federal Expenditures amounts did not agree to the annual financial statement line item.

Criteria:

A Local Educational Agency (LEA) may receive funds under an applicable program only if the State Educational Agency (SEA) finds that the combined fiscal effort per student or the aggregate expenditures of the LEA from State and local funds for free public education for the preceding year was not less than 90 percent of the combined fiscal effort or aggregate expenditures for the second preceding year, unless specifically waived by U.S. Department of Education.

An LEA's expenditures from State and local funds for free public education include expenditures for administration, instruction, attendance and health services, pupil transportation services, operation and maintenance of plant, fixed charges, and net expenditures to cover deficits for food services and student body activities. They do not include the following expenditures: (a) any expenditures for community services, capital outlay, debt service and supplementary expenses as a result of a Presidentially declared disaster and (b) any expenditures made from funds provided by the Federal government.

If an LEA fails to maintain fiscal effort, the SEA must reduce the amount of the allocation of funds under an applicable program in any fiscal year in the exact proportion by which the LEA fails to maintain effort by falling below 90 percent of both the combined fiscal effort per student and aggregate expenditures (using the measure most favorable to the LEA) (Section 9521 of ESEA (20 USC 7901); 34 CFR section 299.5).

Cause:

The State Department of Education or school districts have not developed procedures to ensure the accuracy of the MOE calculation being input.

Effect:

Based on recalculations, the items noted above did not have an impact on the school districts meeting their MOE requirements; however, if such calculations are not monitored closely any shortfalls may not be identified and addressed on a timely basis.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that the Delaware Department of Education reinforce to the school districts how the MOE template should be completed and develop procedures to ensure that the school districts' MOE calculations have been completed accurately.

Views of Responsible Officials:

Agency Contact Name: Emily Falcon / Theresa Vendrzyk Kough

Agency Contact Phone Number: (302) 735-4040 / (302) 857-3390

Corrective Action Plan:

The MOE calculations have been automated to ensure accuracy. All data is now pre-populated from the DOE data warehouse. LEAs must coordinate with DOE to make changes to the data as calculated. DOE Financial Reform Resources staff will ensure that the MOE calculations are done in compliance.

Anticipated Completion Date: July, 2010

Department of Education
Laurel School District
Reference Number: 10-ED-05
Program: Title I Grants to Local Educational Agencies – S-84.389
Special Education Cluster – S-84.391, S-84.392
State Fiscal Stabilization Fund Cluster – S-84.394, S-84.397
Type of Finding: Significant Deficiency
Compliance Requirement(s): Reporting (Section 1512 ARRA Reporting)

Condition:

In connection with our requests to review the Section 1512 Recovery Act reporting and supporting documentation for the $452,556 in reported ARRA expenditures for the quarter ended March 31, 2010, the Laurel School District was unable to provide such information.

Criteria:

Section 1512 of the Recovery Act requires reporting on the use of Recovery Act funding by recipients no later that the 10^{th} day after the end of each calendar quarter (beginning the quarter ending September 30, 2009). Aimed at providing transparency into the use of these funds, the recipient reports are required to include the following detailed information:

- Total amount of funds received; and of that the amount spent on projects and activities;
  - A list of those projects and activities funded by name to include:
  - Description
  - Completion status
  - Estimates on jobs created or retained;
- Details on sub-awards and other payments.

Cause:

The Laurel School District was unable to locate the supporting documentation corresponding to its March 31, 2010 report filing.

Effect:

While we were able to agree that the award numbers and amount reported on the Federal Recovery Act website was in agreement with the award agreement and cumulative expenditures reported in the district's general ledger for the quarter ended March 31, 2010, the supporting documentation was not readily available on-site to support the filing.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that the Laurel School District maintain all supporting documentation corresponding to each ARRA reporting submission to ensure timely and accurate filing.

Views of Responsible Officials:

Laurel School District

Agency Contact Name: Meghan Mitchell

Agency Contact Phone Number: (302) 875-6100

Corrective Action Plan:

Because of staff turnover in the finance office, the supporting documentation noted above was not located. While there is no documentation to support that March 31, 2010 ARRA expenditures were properly reported on the Federal Recovery Act website, the Director of Finance will ensure that documentation supporting each quarterly ARRA reporting is properly maintained and filed properly.

Anticipated Completion Date: Immediately.

Department of Education
Reference Number: 10-ED-06
Program: Title I Grants to Local Educational Agencies (84.010, S-84.389)
Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)
Improving Teacher Quality State Grants (84.367)
Type of Finding: Significant Deficiency
Compliance Requirement(s): Reporting

Condition:

In connection with our review of the Delaware Department of Education's (DOE) compliance requirements applicable to its reporting to the ED, we performed a review of the DOE's information technology (IT) general controls over the eSchoolPlus systems and the Delaware Student Information System (DELSIS).

Based on our review, we noted that in connection with the Department's *Change Management – Limited System Development Lifecycle Procedure Guidance*, the DOE IT department continually implements internally developed applications and purchased software applications without aid of approved policy or procedures for project management. Observations at the DOE and school districts indicate limited adherence to best practices of project management despite committee oversight.

Criteria:

The U.S. Department of Education (ED) requires that the State Educational Agency (SEA) file various reports related to its oversight and compliance over the federal funds it receives from the ED. The following reports are required by the ED:

State Per Pupil Expenditure (SPPE) Data (*OMB No. 1850-0067*) – Each year, a SEA must submit its average State per pupil expenditure (SPPE) data to the National Center for Education Statistics. These SPPE data are used by the ED to make allocations under several Elementary and Secondary Education Act of 1965 (ESEA) programs, including Title I, Part A.

Report of Children and Youth with Disabilities Receiving Special Education Under Part B of the Individuals with Disabilities Act, as amended (OMB Nos. 1820-0030, 1820-0043, 1820-0517, 1820-0521, and 1820-0621) – Each SEA is required to report to the Secretary an unduplicated count of children with disabilities receiving special education and related services.

A SEA must annually review the progress of each Local Educational Agency (LEA) that receives funds under subpart 2 of Part A of Title I to determine whether the LEA made adequate yearly progress as defined by the State. Each SEA must report annually to the Secretary (*OMB No. 1810-0581*), and make certain information widely available within the State. In addition, the SEA must prepare and disseminate an annual State report card that contains, among other things, information on the performance of LEAs regarding adequate yearly progress. The SEA must ensure that each LEA collects the data necessary to prepare its annual report card.

Cause:

The DOE IT department has not formalized policies and procedures regarding internally developed or purchased software.

Effect:

The lack of formal policies and procedures regarding the above items could result in future problems over data integrity.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

The DOE IT department should develop and implement formal policies and procedures to address the items noted above.

Views of Responsible Officials:

Agency Contact Name: Robert E. Czeizinger

Agency Contact Phone Number: (302) 735-4140

Corrective Action Plan:

Change Management – Limited System Development Lifecycle Procedure Guidance

The leadership of the Technology Resources and Data Development Group will develop a written policy designed to strengthen our guidance regarding System Development and Lifecycle Procedures.

Anticipated Completion Date:

Change Management – Limited System Development Lifecycle Procedure Guidance – April 2011.

Department of Education
Cape Henlopen School District
Reference Number: 10-ED-07
Program: Title I Grants to Local Educational Agencies (84.010, S-84.389)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Special Tests and Provisions (Schoolwide Programs)

Condition:

The Cape Henlopen School District had four schools which were using Title I funds under schoolwide programs during the year ended June 30, 2010, however, we were unable to obtain the schoolwide plan for any of these schools to test compliance with the elements and components noted under Criteria.

Criteria:

A school participating under Title I, Part A may, in consultation with its Local Educational Agency (LEA), use its Title I, Part A funds, along with funds provided from other Federal, State, and local education funds, to upgrade the school's entire educational program in a schoolwide program. At least 40 percent of the children enrolled in the school or residing in the school attendance area for the year of the schoolwide program must be from low-income families. The LEA is required to maintain records to demonstrate compliance with this requirement.

a. To operate a schoolwide program, a school must include the following three core elements:
   (1) Comprehensive needs assessment of the entire school (34 CFR section 200.26(a)).
   (2) Comprehensive plan based on data from the needs assessment (34 CFR section 200.26(b)).
   (3) Annual evaluation of the results achieved by the schoolwide program and revision of the schoolwide plan based on that evaluation (34 CFR section 200.26(c)).

b. A schoolwide plan also must include the following components:
   (1) Schoolwide reform strategies (34 CFR section 200.28(a)).
   (2) Instruction by highly qualified professional staff (34 CFR section 200.28(b)).
   (3) Strategies to increase parental involvement (34 CFR section 200.28(c)).
   (4) Additional support to students experiencing difficulty (34 CFR section 200.28(d)).
   (5) Transition plans for assisting preschool children in the successful transition to the schoolwide program (34 CFR section 200.28(e)).

Cause:

The Cape Henlopen School District was unable to provide a comprehensive schoolwide plan for those schools utilizing Title I funds under a schoolwide program.

Effect:

There was no evidence of properly developed schoolwide plans for the district's schools which were under a schoolwide program to ensure compliance with the stated criteria.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

We recommend that the Cape Henlopen School District develop procedures to ensure a schoolwide plan is developed for all schools being provided funds on a schoolwide basis and ensure such plan incorporates all necessary components required by the Federal regulations.

Views of Responsible Officials:

Cape Henlopen School District

Agency Contact Name: Michael Kelley

Agency Contact Phone Number: (302) 645-6686

Corrective Action Plan:

The District will work with the DOE to develop guidance and procedures to ensure that each of its schools operating under a schoolwide program have developed a schoolwide plan that encompasses all the necessary federal requirements.

Anticipated Completion Date: July 1, 2011.

Department of Education
Caesar Rodney School District
Cape Henlopen School District
Laurel School District
Woodbridge School District
Reference Number: 10-ED-08
Program: Title I Grants to Local Educational Agencies (84.010, S-84.389)
Improving Teacher Quality State Grants (84.367)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Special Tests and Provisions (Private School Children)

Condition:

The Caesar Rodney, Cape Henlopen, Laurel and Woodbridge School Districts could not provide any evidence that a calculation was performed to ensure Title I, Part A funds were properly allocated to children from low-income families who attended private schools on the same basis as those children from low-income families who attended the public schools.

Criteria:

For programs funded under Title I, Part A (CFDA 84.010), a Local Educational Agency (LEA), after timely and meaningful consultation with private school officials, must provide equitable services to eligible private school children, their teachers, and their families. Eligible private school children are those who reside in a participating public school attendance area and have educational needs under section 1115(b) of ESEA (20 U.S.C. 6315(b)). Title I, Part A funds must be allocated to each participating public school attendance area on the basis of the total number of children from low-income families residing in that area. In calculating the total number of children from low-income families, an LEA must include children from low-income families who attend private schools. An LEA must use the portion of Title I, Part A funds attributable to private school children from low-income families included in the calculation to provide services to eligible private school children. For example, if $100,000 of Title I, Part A funds are allocated based on 100 children from low-income families, 25 of whom are private school children, $25,000 of the $100,000 must be expended to provide equitable services to eligible private school children.

Cause:

School district personnel were not fully aware of the federal requirements to perform a per pupil calculation to ensure federal funds were properly allocated between children from low-income families who attended either public or private schools.

Effect:

There is no proof of an equitable allocation of funds for services between children from low-income families who attend either public or private schools.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

We recommend that the school district personnel be properly trained by the State Department of Education to ensure the districts fulfill the federal requirements pertaining to the participation of services for private school children from low-income families.

Views of Responsible Officials:

Agency Contact Name: Theresa Vendrzyk Kough

Agency Contact Phone Number: (302) 857-3390

Corrective Action Plan:

As part of the United States Department of Education (ED) monitoring process, responses and corrective actions were taken for the requirement of the participation of private school children in federal programs. The ED's Student Achievement and School Accountability (SASA) Office issued a letter in December of 2010 stating that all findings have been resolved.

Anticipated Completion Date: December 2010

Department of Education
Reference Number: 10-ED-09
Program: Title I Grants to Local Educational Agencies (84.010)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Special Tests and Provisions (Title 1 Monitoring Report)

Condition:

During fiscal year 2010, the U. S. Department of Education's (ED) Student Achievement and School Accountability (SASA) office reviewed the Delaware Department of Education's (DOE) administration of the Title I programs authorized by the Elementary and Secondary Education Act of 1965 (ESEA), as amended by the No Child Left Behind Act (NCLB). Based on our review of the monitoring report (Title I Monitoring Report) issued on November 5, 2010, the following findings cited below related to the compliance requirements applicable to the Title I Grant to Local Educational Agencies as described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* for the year ended June 30, 2010.

Participation of Private School Children

The Delaware SEA has not ensured that its LEAs met requirements regarding the selection of private school students for participation in the Title I program.

Comparability

The Delaware SEA has not ensured that its LEAs comply with the comparability requirement. The Delaware SEA staff indicated that, since the State has a policy to ensure comparability in staffing, it was only necessary for LEAs to indicate that the State had established policies to ensure equivalence among schools in staffing.

Highly Qualified Paraprofessionals

The Delaware SEA has not ensured that its LEAs complied with the hiring requirements for instructional paraprofessionals working in Title I schools.

Criteria:

Participation of Private School Children

For programs funded under Title I, Part A (CFDA 84.010), a Local Educational Agency (LEA), after timely and meaningful consultation with private school officials, must provide equitable services to eligible private school children, their teachers, and their families. Eligible private school children are those who reside in a participating public school attendance area and have educational needs under section 1115(b) of ESEA (20 U.S.C. 6315(b)). Title I, Part A funds must be allocated to each participating public school attendance area on the basis of the total number of children from low-income families residing in that area. In calculating the total number of children from low-income families, an LEA must include children from low-income families who attend private schools. An LEA must use the portion of Title I, Part A funds attributable to private school children from low-income families included in the calculation to provide

services to eligible private school children. For example, if $100,000 of Title I, Part A funds are allocated based on 100 children from low-income families, 25 of whom are private school children, $25,000 of the $100,000 must be expended to provide equitable services to eligible private school children.

If an LEA reserves funds off the top of its Title I, Part A allocation to provide instructional and related activities for public school students at the district level, the LEA must also provide from those funds, as applicable, equitable services to eligible private school students. From applicable funds reserved for parent involvement and professional development, an LEA must ensure that teachers and families of participating private school children have an equitable opportunity to participate in professional development and parent involvement activities, respectively. The amount of funds available to provide these services must be proportionate to the number of private school children from low-income families residing in participating public school attendance areas (Sections 1113(c) and 1120 of ESEA (20 USC 6313(c) and 6320); 34 CFR sections 200.62 through 200.67 and 200.77 through 200.78).

Comparability

An LEA may receive funds under Title I, Part A only if State and local funds will be used in participating schools to provide services that, taken as a whole, are at least comparable to services that the LEA is providing in schools not receiving Title I, Part A funds. An LEA is considered to have met the statutory comparability requirements if it filed with the State Educational Agency (SEA) a written assurance that such LEA has implemented (1) an LEA-wide salary schedule; (2) a policy to ensure equivalence among schools in teachers, administrators, and other staff; and (3) a policy to ensure equivalence among schools in the provision of curriculum materials and instructional supplies. An LEA may also use other measures to determine comparability, such as comparing the average number of students per instructional staff or the average staff salary per student in each school receiving Title I, Part A or MEP funds with those in schools that do not receive Title I, Part A or MEP funds. If all schools are served by Title I, Part A or MEP, an LEA must use State and local funds to provide services that, taken as a whole, are substantially comparable in each school. Determinations may be made on either a district-wide or grade-span basis.

An LEA may exclude schools with fewer than 100 students from its comparability determinations. The comparability requirement does not apply to an LEA that has only one school for each grade span. An LEA may exclude from determinations of compliance with this requirement State and local funds expended for (1) bilingual education for children with limited English proficiency (LEP); and (2) the excess costs of providing services to children with disabilities as determined by the LEA. The LEA may also exclude supplemental State or local funds for programs that meet the intent and purposes of Title I, Part A or MEP (Sections 1120A(c)-(d) and 1304(c)(2) of ESEA (20 USC 6321(c)-(d) and 6394(c)(2)); 34 CFR sections 200.79 and 200.88).

Each LEA must develop procedures for complying with the comparability requirements and implement the procedures annually. The LEA must maintain records that are updated biennially documenting compliance with the comparability requirements. The SEA, however, is ultimately responsible for ensuring that LEAs remain in compliance with the comparability requirement (Section 1120A(c) of ESEA (20 USC 6321(c)).

Highly Qualified Paraprofessionals

Qualifications for paraprofessionals support by Title I, Part A funds are as follows:

a. An LEA must ensure that each paraprofessional who is hired by the LEA after January 8, 2002 and who works in a program supported with Title I, Part A funds meets specific qualification requirements. Paraprofessionals who work in a program supported with Title I, Part A funds and who were hired by an LEA prior to January 8, 2002, had to meet these requirements by the end of the 2005-2006 school year. The term "paraprofessional" means an individual who provides instructional support; it does not include individuals who have only non-instructional duties (such as providing technical support for computers, providing personal care services, or performing clerical duties). A paraprofessional works in a program supported with Title I, Part A funds if the paraprofessional is paid with Title I, Part A funds in a Title I targeted assistance school or works as a paraprofessional in a schoolwide program school.

b. A paraprofessional must hold a high-school diploma or its recognized equivalent and meet one of the following requirements:
   (1) Have completed at least two years of study at an institution of higher education.
   (2) Have obtained an associate's or higher degree.
   (3) Have met a rigorous standard of quality, and can demonstrate through a formal State or local academic assessment knowledge of, and the ability to assist in instructing, reading/language arts, writing, and mathematics, or reading readiness, writing readiness, and mathematics readiness.

c. A paraprofessional who is proficient in English and a language other than English and acts as a translator or who has duties that consist solely of conducting parental involvement activities need only have a high-school diploma or its recognized equivalent.

   (Title I, Section 1119(c)-(f) of ESEA (20 USC 6319(c)-(f)); 34 CFR section 200.58)

Cause:

Originally, the DOE either misinterpreted the required compliance requirements or failed to ensure full compliance with the above special tests and provisions for the Title I program.

Effect:

The DOE is not fulfilling the special tests and provisions required by the OMB Circular A-133.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

We recommend that DOE implement the further actions required for each finding identified in the Title I Monitoring Report and interact with the SASA office to ensure its compliance procedures are approved.

Views of Responsible Officials:

Agency Contact Name: Theresa Vendrzyk Kough

Agency Contact Phone Number: (302) 857-3390

Corrective Action Plan:

As part of the ED monitoring process, responses and corrective actions were taken in each of the cited areas. ED's SASA office issued a letter in December of 2010 stating that all findings have been resolved.

Anticipated Completion Date: December 2010.

Department of Education
Reference Number: 10-ED-10
Program: Special Education Cluster (84.027, 84.173, S-84.191, S-84.192)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Level of Effort (Maintenance of Effort)

Condition:

We were unable to obtain a copy of the State's MOE calculation for the year ended June 30, 2010.

In addition, based on a review of the LEA MOE calculations (Excess Cost for IDEA template) included in 2010 consolidated subgrant applications for each of the eight school districts selected for testing, we noted that the methodology that school districts used in completing the template were not consistent among the school districts. Some school districts used appropriation codes, some used object codes and some used a pro rata share of those expenditures based upon their special education units by total units. Without a consistent and well-defined methodology, the ability to truly measure changes between the years for each school district becomes more problematic.

Criteria:

SEA – LEVEL OF EFFORT

A State may not reduce the amount of State financial support for special education and related services for children with disabilities (or State financial support otherwise made available because of the excess costs of educating those children) below the amount of State financial support provided for the preceding fiscal year. The Secretary reduces the allocation of funds under 20 USC 1411 for any fiscal year following the fiscal year in which the State fails to comply with this requirement by the amount by which the State failed to meet the requirement. If, for any fiscal year, a State fails to meet the State-level maintenance of effort requirement (or is granted a waiver from this requirement), the financial support required of the State in future years for maintenance of effort must be the amount that would have been required in the absence of that failure (or waiver) and not the reduced level of the State's support (20 USC 1412(a)(18); 34 CFR section 300.163).

LEA – LEVEL OF EFFORT

Individual Disability Education Act (IDEA), Part B funds received by an LEA cannot be used, except under certain limited circumstances, to reduce the level of expenditures for the education of children with disabilities made by the LEA from local funds, or a combination of State and local funds, below the level of those expenditures for the preceding fiscal year. To meet this requirement, an LEA must expend, in any particular fiscal year, an amount of local funds, or a combination of State and local funds, for the education of children with disabilities that is at least equal, on either an aggregate or per capita basis, to the amount of local funds, or a combination of State and local funds, expended for this purpose by the LEA in the prior fiscal year. Allowances may be made for: (a) the voluntary departure, by retirement or otherwise, or departure for just cause, of special education personnel; (b) a decrease in the enrollment of children with disabilities; (c) the termination of the obligation of the agency, consistent with this part, to provide a program of special education to a particular child with a disability that is an exceptionally costly program,

as determined by the State Educational Agency (SEA), because the child has left the jurisdiction of the agency, has reached the age at which the obligation of the agency to provide a free appropriate public education (FAPE) has terminated or no longer needs such program of special education; (d) the termination of costly expenditures for long-term purchases, such as the acquisition of equipment and the construction of school facilities; or (e) the assumption of costs by the high cost fund operated by the SEA under 34 CFR section 300.704 (20 USC 1413(a)(2); 34 CFR sections 300.203 and 300.204).

Cause:

It is our understanding that the State's MOE calculation was completed but evidence of the completed MOE calculation could not be located/provided as a result of personnel turnover in the position of the person responsible for completing the calculation.

Lacking specific guidance or oversight, the school districts are not completely knowledgeable of how the Special Education MOE calculation should be completed to ensure consistency among the school districts and from year to year.

Effect:

The State or the school districts may not have truly met their Special Education MOE requirements.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

We recommend that the State MOE calculation for Special Education be stored in a central repository at the State Department of Education to ensure its availability even if personnel turnover occurs.

We also recommend that the DOE provide detailed guidance and training for the school districts on the completion of the Special Education MOE template. We believe these procedures should be consistent for each school so the Special Education MOE calculations can be monitored more easily, if necessary.

Views of Responsible Officials:

Agency Contact Name: Emily Falcon

Agency Contact Phone Number: (302) 735-4040

Corrective Action Plan:

Procedures will be instituted to ensure that all MOE calculations are maintained in a central repository to insulate them from staff turnover issues. Additionally, DOE has taken steps to automate the MOE calculations for LEAs to ensure consistent and accurate calculations. DOE will provide additional guidance for the LEAs on these calculations to ensure their staff is knowledgeable about the MOE template and can assist in detecting any errors or inconsistencies in the calculations.

Anticipated Completion Date: July 2011.

Department of Education
Reference Number: 10-ED-11
Program: Child and Adult Care Food Program (10.558)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Eligibility (Subrecipients)

Condition:

Based on our review of the applications of thirty subrecipients, we noted the following items:

- The annual applications do not contain explicit language ensuring that the subrecipients are not ineligible for publicly funded programs due to their violation of program requirements or criminal convictions during the past seven years.

- The annual applications do not contain all the required components of the performance standards. The standards require the organizations have documentation supporting 1) the organizations need and recruiting and 2) fiscal resources and financial history. In addition, renewing organizations should have documentation of fiscal accountability which includes a financial system with management controls in writing and accounting records.

- Four out of the thirty organizations application files did not have outside employment policies.

Criteria:

In accordance with the Child and Adult Care Food (CACFP) Program, a State administering agency must follow the following eligibility requirements:

a. Administering agencies may disburse CACFP funds only to those organizations that meet the eligibility requirements stated in the following program requirements: (1) generic requirements for all institutions at 7 CFR section 226.15 and 42 USC 1766(a)(6) and (d)(1); (2) additional requirements for sponsoring organizations at 7 CFR section 226.16; (3) additional requirements for child care centers (whether independent or sponsored) at 7 CFR section 226.17; (4) additional requirements for day care homes (which must be sponsored) at 7 CFR section 226.18; (5) additional requirements for outside-school-hours centers at 7 CFR section 226.19; (6) additional requirements for adult day care centers (whether independent or sponsored) at 7 CFR section 226.19a; (7) additional requirements for at-risk afterschool programs at 7 CFR section 226.17a; and (8) additional requirements for emergency shelters at 42 USC 1766(t).
b. For-profit child care and outside-school-hours care centers may participate in the CACFP if they meet either of the following two criteria: (1) at least 25 percent of the enrolled children or 25 percent of the licensed capacity, whichever is less, are funded under Title XX of the Social Security Act; or (2) at least 25 percent of the children in their care are eligible for free or reduced price meals. Children who participate only in the at-risk afterschool component of the program must not be considered in determining whether the institution met this 25 percent threshold (42 USC 1766(a)(2)(B); 7 CFR section 226.11(c)(4)).

c. For-profit adult day care centers may be eligible for CACFP if at least 25 percent of their participants receive benefits under Title XIX or Title XX of the Social Security Act (7 CFR section 226.2 (definition of "for-profit center")).

Cause:

Standard applications have not been reviewed recently to ensure all federal regulations have been incorporated.

Effect:

The applications do not contain all the components required by federal regulations.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

We recommend that the Delaware Department of Education revise its CACFP applications to ensure all necessary components listed in the Federal regulations are explicitly incorporated.

Views of Responsible Officials:

Agency Contact Name: Linda Wolfe, Director, School Support Services

Agency Contact Phone Number: (302) 735-4060

Corrective Action Plan:

The condition regarding the annual applications that do not contain explicit language ensuring that the subrecipients are not ineligible for publicly funded programs was corrected October 2010. The required elements were added to the new nutrition software program application. The Delaware Nutrition Accountability and Reporting System (DENARS) has an online application component that all sponsors are required to complete prior to each fiscal year. The new system was implemented in October 2010 for CACFP.

The condition regarding the annual applications that do not contain all the required components of the performance standards was corrected in October 2010. The required elements were added to the DENARS online application that all sponsors must complete annually. Additionally, these areas are covered in the administrative reviews conducted for all renewing sponsors. All new applicants are required to submit the balance sheet from their most recent audit or 2 months of checking account statements for review. This information is provided at the training. We believe this combination of modifications to forms and processes fully satisfies all issues outlined in this condition.

In response to the condition regarding the outside employment policies, for the past two application approval cycles (2009/10 and 2010/11), the state agency has reviewed all renewing sponsors' file

documents to ensure that Outside Employment Policy Statements and all other required documents were in the files. We included these items on the annual file review checklist and have this documentation to support our position that all current files contain the required documents.

Anticipated Completion Date: Completed in October 2010.

Department of Education
Reference Number: 10-ED-12
Program: Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559)
Child and Adult Care Food Program (10.558)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement(s): Subrecipient Monitoring

Condition:

Based on our review of the program's subrecipient monitoring, we noted that while the Delaware Department of Education ensures that its applications for both Child Nutrition and Child and Adult Care Food Programs include the need for subrecipients expending $500,000 or more in federal awards have an audit, there is no mechanism in place to track whether any such subrecipients have confirmed that need for an OMB Circular A-133 audit and, in turn, whether the DOE should be following up on any audits performed.

Criteria:

A pass-through entity is responsible for (1) ensuring that subrecipients expending $500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions. (OMB Circular A-133 Compliance Supplement, Part 3, Section M)

A pass-through entity is responsible for evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations. (OMB Circular A-133 Compliance Supplement, Part 3, Section M).

Cause:

The DOE has not developed a procedure to ensure it monitors any subrecipients who may be required to meet the audit requirements of OMB Circular A-133 and ensure its on-site visits on its subrecipients meet the required criteria. Furthermore, the DOE is not adhering to the prescribed internal control procedures for review of payment vouchers to subrecipients.

Effect:

The DOE does not appear to be fulfilling all of its subrecipient monitoring responsibilities.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

We recommend that the DOE develop procedures to ensure it adequately tracks and monitors possible audits required for its subrecipients and ensure original approved payment vouchers are readily available.

Views of Responsible Officials:

Agency Contact Name: Linda Wolfe, Director, School Support Services

Agency Contact Phone Number: (302) 735-4060

Corrective Action Plan:

The newly implemented (October 2010) CACFP portion of the DENARS application system addresses the conditions listed above. The application allows the DOE to search any sponsor to determine their compliance with the A-133 audit requirement certification statement. The application system also allows the DOE to track the current status of each sponsor's compliance.

Additionally, DOE Nutrition Programs is currently developing a *program processes* document that will provide guidance on all activities of the program. The first three completed processes relate to A-133, including the responsibility of the agency to collect, review, and monitor audits.

Anticipated Completion Date : Completed in October 2010.

Department of Education
Brandywine School District
Reference Number: 10-ED-13
Program: Title I Grants to Local Educational Agencies (84.010, S-84.389)
Special Education Cluster (84.027, 84.173, S-84.391, S-84.392)
State Fiscal Stabilization Fund (S-84.394)
Type of Finding: Significant Deficiency
Compliance Requirement(s): Allowable Costs (Payment Vouchers)

Condition:

While the Brandywine School District's internal controls require that payment vouchers be signed off and approved prior to being processed, based on a sample of 36 nonpayroll expenditures totaling $445,750, five payment vouchers amounting to $3,145 were signed off after they were already processed into the general ledger.

Criteria:

To be allowable under federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C):

- Be necessary and reasonable for proper and efficient performance and administration of Federal awards.
- Be allocable to Federal awards under the provisions of the Circular. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
- Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- Be adequately documented.

Cause:

The Brandywine School District did not adhere to its internal control policy to have all payment vouchers approved prior to being entered into the general ledger.

Effect:

Potential unallowable costs could have been entered into the general ledger since the payment vouchers were not approved prior to processing, however, the payment vouchers were still signed and approved for allowability subsequent to their acceptance into the general ledger.

Questioned Costs:

No unallowable costs were identified.

Recommendation:

We recommend that the district reinforce the need to ensure that payment vouchers are approved prior to being entered into the general ledger so their internal control process functions as a preventative control for possible unallowable expenditures rather than as a detective control.

Views of Responsible Officials:

Brandywine School District

Agency Contact Name: David Blowman

Agency Contact Phone Number: (302) 793-5045

Corrective Action Plan:

The Chief Financial Officer will reinforce the need to fully comply with the district's internal control procedures by ensuring all payment vouchers have been approved before being entered in the general ledger.

Anticipated Completion Date: Immediately.

Department of Education
Red Clay Consolidated School District
Reference Number: 10-ED-14
Program: Title I Grants to Local Educational Agencies (84.010, S-84.389)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Procurement

Condition:

The following finding was noted in connection with a sole source procurement special investigation conducted by the State's Auditor of Accounts (AOA) on the Red Clay Consolidated School District with a fieldwork end date of March 24, 2010.

The Red Clay Consolidated School District has two Title I schools rated as under improvement, which requires them to consult with an "outside expert" to develop adequate improvement plans. To comply with this requirement, the District referred to the listing of Distinguished Educators maintained by the DOE, and selected the only two consultants on this listing designated as Distinguished Educators for "strategies for improvement based upon comprehensive analysis of current academic status." The District contracted with these two individuals, treating them as sole source contracts. Although the schools are required to consult with an "outside expert," that "outside expert" is not required to be on the listing of Distinguished Educators maintained by DOE. DOE's intention was not to make these vendors the exclusive providers of services, but merely to be a starting point for determining vendors that could be included in the normal bidding process. The District's written documentation citing the existence of a sole source condition did not include a description of the "specific efforts made to determine the availability of any other source and an explanation of the procurement need."

Criteria:

Title 29, Chapter 69, State Procurement, Subchapter VI. Professional Services, Subsection 6985. *Sole source procurement* states:

"(a) A contract may be awarded for professional service without competition if the agency head, prior to the procurement, determines in writing that there is only 1 source for the required professional service. Sole source procurement shall not be used unless there is sufficient evidence that there is only 1 source for the required professional service and that no other type of professional service will satisfy the requirements of the agency. The agency shall examine cost or pricing data prior to an award under this section. Sole source procurement shall be avoided, except when no reasonable alternative sources exist. A written determination by the agency on the basis for the sole source procurement shall be included in the contract file.

(b) An agency seeking a sole source procurement shall prepare written documentation citing the existence of a sole source condition. The document shall include the specific efforts made to determine the availability of any other source and an explanation of the procurement need. The agency may, for confirmation, submit this documentation to the Section for review and comment prior to the intended date of award.

(c) The agency shall negotiate with the single supplier, to the extent practicable, a contract advantageous to the agency. The agency shall enter into a formal contract stating the terms and conditions of the procurement."

The Delaware Department of Education (DOE) utilizes the "Delaware Accountability Ratings" system, ratings based on standardized testing scores to assess the schools' academic programs. Schools who are rated as under improvement, corrective action, or restructuring are required by Title I to consult with "outside experts" regarding school improvement plans. For the schools' reference, DOE maintains a listing of Distinguished Educators, individuals with specific areas of expertise who are available to enter into contractual agreements. Schools are not required to hire consultants from this listing.

Cause:

The District incorrectly determined this was a sole source contract situation based on the fact that the two consultants were listed on DOE's listing of Distinguished Educators.

Effect:

Since other qualified individuals may exist outside of the Distinguished Educators listing and an open bidding process was not used, the District may be paying more than needed to obtain these services. The District did not comply with Delaware procurement laws.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

The District should consider all qualified individuals when in need of consulting services. In doing so, the District may find that their particular needs may be adequately filled by another vendor with cost savings for the District. If the District determines the contract will be sole source based on the research performed, the District should adequately document the determination in accordance with Title 29, Chapter 69, Subsection 6985(b). Otherwise, contracts for these services should be subjected to the normal bidding practices.

Views of Responsible Officials:

Red Clay Consolidated School District

Agency Contact Name: Jill Floore

Agency Contact Phone Number: (302) 552- 3725

Corrective Action Plan:

The District believes it acted within the proper scope of Title 29 in issuing the sole source contract with Dr. Linda Poole and Mr. Lew Miller. In addition to their unique qualifications as provided in the sole source procurement documentation regarding their specific educational careers as Directors of Curriculum and Instruction in the State of Delaware, the district coordinated with the State Department of Education and

the process of identification of distinguished educators for compliance with federal law. Section 1117, (4) (A), School Support and Recognition, states the following for using a qualified vendor:

> "(4) STATEWIDE SYSTEM
>
> (A) In order to achieve the purpose described in paragraph (1), the statewide system shall include, at a minimum, the following approaches:
>
> (i) Establishing school support teams in accordance with subparagraph (C) for assignment to, and working in, schools in the State that are described in paragraph (2).
>
> (ii) Providing such support as the State educational agency determines necessary and available in order to ensure the effectiveness of such teams.
>
> (iii) Designating and using distinguished teachers and principals who are chosen from schools served under this part that have been especially successful in improving academic achievement.
>
> (iv) Devising additional approaches to providing the assistance described in paragraph (1), such as providing assistance through institutions of higher education and educational service agencies or other local consortia, and private providers of scientifically based technical assistance."

In assisting districts, the Delaware Department of Education used a comprehensive and rigorous process for identifying distinguished educators to work across the state. Only 14 of the original 40 applicants were selected for the list. Additionally, while many completed the process, only Dr. Poole and Mr. Miller were identified under School Improvement and the specific area of focus under the contract. In fact, the Department of Education has contracted with these two individuals to provide statewide training in curriculum and instruction. Through considerable notification, this was a process open to all individuals and vendors.

The District believes the use of an alternative vendor outside the process of identification or collaboration with the Department of Education would have been a violation of the federal requirements and not within the spirit of funding under Title I. While the District agrees there may be an educational firm or firms capable of performing school improvement work on a national level, none would be knowledgeable about the specific standards and requirements in the state of Delaware and the cost of developing this knowledge would be exorbitant. Minimizing cost was a significant factor and going outside the process of identification would have increased the cost for procurement rather than lowering it.

The District believes the findings are incorrect and do not recognize the information provided by the District and the Department of Education. The District has continued to be in contact with the Department of Education over the issue and have an understanding the District acted in an appropriate manner with the contracts.

Anticipated Completion Date: N/A

Auditor of Accounts' Response to Red Clay's Corrective Action Plan Response:

Throughout the course of the investigation, AOA communicated with DOE regarding the intended use of the listing of Distinguished Educators. DOE agreed and stated, in writing, that the contracted experts required by Title I are not required to be on the listing of Distinguished Educators maintained by DOE and the **intention was not to make these vendors the exclusive providers** of services, but merely a starting point for determining vendors that could be included in the normal bidding process. Therefore, for the

reasons stated in our recommendation, the District should consider all qualified vendors, including qualified vendors that are not included on the listing of Distinguished Educators, when in need of consulting services.

Department of Health and Social Services:
Division of Management Services
Reference number: 10-DHSS-01
Programs: Supplemental Nutrition Assistance Program Cluster (10.551, 10.561, S-10.561)
Temporary Assistance for Needy Families (93.558, S-93.714)
Child Care Cluster (93.596, 93.575, S-93.713)
State Children's Health Insurance Program (93.767)
Medicaid Cluster (93.775, 93.777, S-93.777, 93.778, S-93.778)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement(s): Allowable Costs

Condition:

The Department did not follow its cost allocation plan when charging costs related to the Division of Medicaid and Medical Assistance (DMMA). The Public Assistance Cost Allocation Plan (PCAP) designates DMMA costs to be charged directly to the Medicaid program or through the indirect charge method across all DMMA programs. However, the Department was incorrectly allocating the DMMA related costs among the Division of Social Services (DSS) programs.

Criteria:

The State follows a PCAP that administers federal programs within the DSS, DMMA, and Divisions of Management Services, all of which are divisions within the Delaware Department of Health and Social Services (DHSS). The PCAP plan was effective for the period July 1, 2005 through September 30, 2008, with an automatic annual conditional approval until the new PCAP is approved. A State must claim Federal financial participation for costs associated with a program only in accordance with its approved cost allocation plan (45 CFR section 95.507).

Cause:

The State did not set up the proper allocation method within its general ledger system to allocate DMMA costs in accordance with the approved PCAP.

Effect:

DMMA costs were charged incorrectly to DSS federal programs and were not charged in accordance with the approved PCAP.

Recommendation:

We recommend the State ensures its general ledger, Delaware Financial Management System (DFMS), is properly configured to allocate costs out of the cost pool in accordance with its approved PCAP plan. We also recommend that the PCAP plan be revised to reflect an allocation of costs to federal programs based on the true effort being provided to those federal programs. The State should also implement procedures to perform a review of the costs being allocated out of the cost pool to ensure it is being allocated in accordance with the approved PCAP.

Questioned Costs:

Questioned costs are not determinable.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

In February 2010, DHSS secured assistance from an independent firm for the purpose of reviewing the department's Random Moment Sampling (RMS) process which is a vital component of the Public Assistance Cost Allocation Plan (PCAP). Based on this review, changes were implemented to improve that process and the resulting allocations. This included regular updates to the employee roster from which the RMS sample is drawn and the provision of RMS training to workers that respond to the time study.

Additionally, DHSS released a Request for Information (RFI) soliciting proposals from prospective vendors to replace DHSS's Random Moment Time Study (RMTS) and cost allocation system software as both applications are unsupported and outdated. Contracts were subsequently awarded and the new internet based RMTS was fully implemented on 1/1/11 and the cost allocation software is in the process of being implemented.

Finally, DHSS released a Request for Proposal (RFP) and subsequently awarded a contract to secure further outside assistance to review of DHSS's system of Federal program administration and cost allocation including an in-depth review of the public assistance programs DHSS participates in, allocation methodologies and the supporting systems/processes. The objective of this concentrated effort is to (1) update/document the cost pools and allocation methodologies, (2) upgrade/improve the systems related to and supporting the PCAP, and (3) production of an up-to-date, integrated DHSS PCAP with sound quality control procedures. Work has commenced and we target this project to be completed in calendar year 2011 with the resulting PCAP submitted to the Department of Health and Human Services Division of Cost Allocation (DCA) for approval toward the end of 2011.

Anticipated Completion Date: 2011.

Department of Health and Social Services
Reference number: 10-DHSS-02
Programs: Temporary Assistance for Needy Families Cluster (93.558, S-93.714)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Reporting

Condition:

The total expenditures recorded in the State's Schedule of Expenditures of Federal Awards for the Temporary Assistance for Needy Families (TANF) Cluster, as supported by the Delaware Financial Management System (DFMS), amounted to $49,803,520. The State completed drawdowns of $49,420,528. The total federal expenditures reported on the Forms ACF-196 during the State's fiscal year ended June 30, 2010 for all open program years amounted to $33,014,146. We were unable to obtain and test a reconciliation of the TANF amounts reported to the U.S. Department of Health and Human Services on Forms ACF-196 to the amounts reported on the SEFA.

Criteria:

ACF-196, *TANF Financial Report (OMB Control No. 0970-0247)* – States are required to submit this report quarterly in lieu of the SF-269, *Financial Status Report*. Each State files quarterly expenditure data on the State's use of Federal TANF funds, State TANF MOE expenditures, and State expenditures of MOE funds in separate State programs. If a State is expending Federal TANF funds received in prior fiscal years, it must file a separate quarterly TANF Financial Report for each fiscal year that provides information on the expenditures of that year's TANF funds.

Cause:

DHSS does not have a procedure in place to reconcile total amounts reported on the Forms ACF-196 to the total amounts reported on the State's accounting system, DFMS, to ensure that all federal expenditures and transfers to other programs (Child Care Development Fund and Social Services Block Grant).

Effect:

The amounts reported to the U.S Department of Health and Human Services on Forms ACF-196 could not be reconciled to the amounts reported on the SEFA.

Recommendation:

We recommend that DHSS develop procedures to reconcile cumulative expenditures reported on Forms ACF-196 to expenditures accumulated on the State's accounting system to ensure all federal expenditures and transfers to other federal programs are appropriately reported.

Questioned Costs:

Questioned costs are not known as a result of the unidentified reconciling items.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone number: (302) 255-9235

Corrective Action Plan:

DHSS Grants Section will initiate procedures and policies and will update the internal controls for all federal reporting to ensure that all federal funds are reported timely and accurately. This includes quarterly meetings with fiscal staff from both DHSS Grants and the Division of Social Services, an accounting of the federal drawdown for the quarter and reconciliation with the First State Financials (FSF) reports including the Monthly Appropriation Expenditure by Account, the newly created Monthly Budgetary Actuals Report and the Budget Status reports from the Grants management modular.

Anticipated Completion Date: April 30, 2011.

Department of Health and Social Services
Department of Social Services
Reference number: 10-DSS-01
Programs: Child Care Cluster (93.575, 93.596, S-93.713)
Type of Finding: Significant Deficiency
Compliance Requirement: Allowable Costs

Condition:

During our internal control testwork over management approval of payment vouchers we noted that, although the cost was allowable, payment voucher # 3507DCW010810 was not properly reviewed and approved with two authorized signatures.

Criteria:

Payment Vouchers greater than $2,500 must be reviewed and approved as evidenced by two authorized signatures.

Cause:

The cause is human error.

Effect:

Without proper review, payments may be made that are not allowable under federal guidelines.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

Management should reinforce the need for proper review and approval of all payment vouchers prior to processing for payment.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

Due to an oversight, the identified payment voucher was not signed as noted in the finding. The need for proper review and approval of payment vouchers prior to processing will be reinforced with staff.

Anticipated Completion Date: Immediately.

Department of Health and Social Services
Division of Social Services
Reference number: 10-DSS-02
Programs: Temporary Assistance for Needy Families Cluster (93.558, S-93.714)
Type of Finding: Significant Deficiency
Compliance Requirement: Suspension & Debarment

Condition:

The State has implemented a "boiler-plate" contract which states that they (the vendor) are neither suspended nor debarred from Federal procurement and non-procurement transactions. Two contracts totaling $276,690, out of seven contracts tested with a total value of $1,401,924, did not include the suspension and debarment language in the contract or contract amendment signed by the vendor. The total population of contracts exceeding $25,000 for this program was $3,873,885. The Excluded Parties List System (EPLS) was reviewed during the audit process, and none of the vendors included in the testing was on the EPLS.

Criteria:

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a non procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the EPLS maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Cause:

Contract amendments standard language has not been updated to include suspension and debarment language for modification to contracts prior to 2009 or to contract extensions.

Effect:
The Program may award federally funded contracts to disallowed vendors at the time of the amendment.

Questioned Costs:

We noted that this is not a compliance issue as the vendors tested were not on the EPLS listing.

Recommendation:

We recommend that all new contracts and amendments include the new suspended and debarred language as required by the compliance supplement.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

This contract was put in place and subsequent amendments processed prior to the 2009 boilerplate update. As this contract is in its last contract extension period, when reprocurement occurs, the suspension and debarment language will be included in the resulting contract.

Anticipated Completion Date: As contracts are amended.

Department of Health and Social Services
Department of Social Services
Reference number: 10-DSS-03
Programs: Medicaid Cluster (93.775, 93.777, S-93.777, 93.778, S-93.778)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Eligibility

Condition:

State as well as Federal Policy states that applicants are required to submit a written application signed under the penalty of perjury. DHSS has not retained all written applications required to verify that the application was submitted under the penalty of perjury for 1 of the 40 files tested.

Criteria:

According to the OMB A-133 June 2010 Compliance Supplement, "States are required to have… (3) a written application on a form prescribed by the agency and signed under a penalty of perjury. The State must require a written application signed under penalty of perjury and include in each applicant's case record facts to support the agency's decision on his/her application."

Cause:

The missing application could be due to staff failing to upload the application in DIS and/or the misplacement of the original application in the paper file.

Effect:

Households are receiving government benefits without the legal security that individuals who make false statements will be persecuted to the full extent of the law.

Questioned Costs:

The individual was deemed eligible for Medicaid-funded emergency medical services and/or labor and delivery services only. There are no questioned costs associated with this finding as the individual did not have any qualifying claims during the fiscal year ended June 30, 2010.

Recommendation:

We recommend that the State review this practice and also to advise supervisors to properly retain records by uploading files into DIS (scanning system) and maintaining paper files.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9355

Corrective Action Plan:

DSS agrees with the finding. The original case file with the application form is missing. The staff cannot locate the paper file. There is sufficient documentation in the eligibility system to support the benefit authorized after the application form was signed in December 2009. The number of misplaced paper case files should diminish in the future as more case files including application forms are scanned/document imaged into the automated system.

Anticipated Completion Date: Ongoing.

Department of Health and Social Services
Division of Social Services
Reference number: 10-DSS-04
Programs: Medicaid Cluster (93.775, 93.777, S-93.777, 93.778, S-93.778)
Temporary Assistance for Needy Families Cluster (93.558, S-93.714)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Eligibility

Condition:

Medicaid
Out of a sample of 40 cases selected for testing, we noted three instances where the supporting documentation used as proof of household income was under a different individual's name than the name of the parent/guardian on the application.

TANF
Out of a sample of 40 cases selected for testing, we noted six instances where the supporting documentation used as proof of household income was under a different individual's name than the name of the parent/guardian on the application.

The parent/guardian was listed as a deemer (Note: A deemer is defined as an individual who is a parent or guardian for a child recipient, but who is ineligible to receive direct assistance for themselves from the State) in the case file.

Criteria:

Only U.S. citizens and qualified aliens, as defined in section 431 of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), are eligible to receive cash assistance benefits. Citizens are those persons born in the 50 states and the District of Columbia, Puerto Rico, Guam, U.S. Virgin Islands, and Northern Mariana Islands.

Qualified aliens are defined as aliens who are; (1) An alien lawfully admitted for permanent residence under the Immigration and Nationality Act (INA); (2) An alien granted asylum under section 208 of the INA; (3) A refugee admitted to the United States under section 207 of the INA; (4) An alien paroled into the United States under section 212(d)(5) of the INA for a period of at least 1 year; (5) An alien whose deportation is being withheld under section 243(h) of the INA as in effect prior to April 1, 1997, or whose removal is being withheld under section 241(b)(3)of the INA; (6) An alien granted conditional entry under section 203(a)(7) of the INA as in effect prior to April 1, 1980; (7)An alien who is a Cuban or Haitian entrant; or (8) An alien who (or whose child or parent) has been battered or subjected to extreme cruelty in the United States and otherwise satisfies the requirements of 8 U.S.C. 1641(c). Qualified aliens who entered the United States prior to August 22, 1996 are treated as if they were United States citizens. Qualified aliens admitted on or after August 22, 1996, are barred from receiving cash benefits for five (5) years, except for certain excepted groups described below who are not subject to the bar. The following excepted groups of aliens are exempt from the 5-yar ban on benefits: (1) Qualified aliens lawfully residing in the State who are honorably discharged veterans and who fulfill minimum active-duty service requirements, or who are on non-training active duty in the U.S. Armed Forces, or who are the spouse, unmarried dependent child, or unremarried surviving spouse of such a veteran or active-duty personnel,

provided that, in the latter case, the marriage satisfied the requirements of the 38 U.S.C. S1304; (2) Refugees, for a period of five years after the date they entered the U.S. as refugees; (3) Asylees, for a period of five years after obtaining such status; (4) Aliens whose deportation of removal has been withheld, for a period of five years after obtaining such status; (5) Cuban/Haitian entrants, as defined in section 501(e) of the Refugee Education Assistance Act of 1980, for a period of five years after they obtain such status; and (6) Amerasian immigrants from Vietnam, admitted to the U.S. pursuant to section 84 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act of 1988, for a period of five years after their admission. (7) Individuals who are eligible due to being lawfully admitted for permanent residence (LPR) who can be credited with 40 quarters of work; (8) Victims of Severe Trafficking per Public Law 106-386 Trafficking Victims Protection Act of 2000; and (9) An alien who (or whose child or parent) has been battered or subjected to extreme cruelty in the United States and otherwise satisfies the requirements of 8 U.S.C. 1641(c).

Delaware Child Care policy states that "The Division will provide Child Care services for eligible families where there is at least one U.S. citizen or legal alien in the family. If one member of the family is a U.S. citizen or legal alien and they meet both technical and financial eligibility criteria. Child Care Services can be provided. The Division will evaluate non-U.S. citizen cases on an individual basis."

Cause:

The parent/guardian applicant did not satisfy the U.S. citizen or qualified alien requirement but have children that are U.S. citizens, therefore the Delaware Department of Health and Human Services (DHSS) personnel documented the parent/guardian applicant as a deemer. However, DHSS personnel did not adher to specified documentation guidelines for acceptable proof of income used to determine household income for the parent/guardian.

Effect:

The acceptance of supporting documentation of income from applicants which reflect names which do not match those of the applicant could result in providing benefits to individuals or families which are not eligible or in an amount not properly calculated.

Questioned Costs:

The total benefits issued during the fiscal year ended June 30, 2010 related to the TANF cases amounted to $13,947. There were no benefits paid during the fiscal year ended June 30, 2010 related to the Medicaid cases.

Recommendation:

Although the non-qualified alien parent/guardian applicant was classified as a deemer and is therefore not technically receiving assistance, there is nothing within State or Federal policy stating that this practice is acceptable. We recommend that DHSS review this practice and develop a clear public policy to address situations where ineligible aliens can apply for aid on behalf of eligible citizen children and to also develop guidelines as to what documentation is acceptable to support household income in such situations.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

Neither the federally approved Delaware TANF State Plan nor the federally approved Delaware Medicaid State Plan prohibit the practice identified in this finding. DSS believes that it is not necessary to change the policy to state it is acceptable for parents/caretakers to work under an alias. Policy cannot prescribe what name, DOB, SSN, etc. a parent gives the employer. All of the cases listed in this finding included non-legally residing parents who voluntarily divulged that they are not legally residing but employed, who provided the required documentation of their income. Verification of income to be used to determine an eligible child's benefit is what is vital. Not counting a family's income earned under an alias would result in providing benefits to ineligible families and providing more benefits than the family is due.

Anticipated Completion Date: Not applicable.

Auditors' Response:

The practice noted above is not specifically prohibited or allowed; as a result, the grantor needs to determine if the practice provides an adequate means for the program to validate household income.

Department of Health and Social Services
Division of Child Support Enforcement
Reference number: 10-CSE-01
Programs: Child Support Enforcement (93.563, S-93.563)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Allowable Costs (Effort Reporting)

Condition:

Time certifications for 6 employees with payroll amounting to $7,819, out of 65 employees sampled with a total payroll value of $59,641 tested, were not reviewed and approved on a timely basis. Total payroll charged to the program for the fiscal year was $5,767,356. The certifications related to August 15, 2009 were signed and dated September 2010.

Criteria:

Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee (OMB Circular A-87, Attachment B.8.h.3)

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution or the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods; and (d) they must be signed by the employee. (OMG Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) the governmental unit's system for establishing the estimates produce reasonable approximations of the activity actually performed; (ii) at least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the difference between budgeted and actual costs are less than ten percent; and (iii) the budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Substitute systems for allocating salaries and wages to federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures or employee effort.

Substitute systems which use sampling methods must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample result.
- The entire time period being sampled.
- The results must be statistically valid and applied to the period being sampled. (OMB Circular A-87, Attachment B.8.h.6)

Cause:

A time certification for 6 employees was not reviewed and approved on a timely basis, due to the lack of oversight by the individual's supervisor.

Effect:

Salaries may be inappropriately allocated to the Child Support Enforcement program.

Questioned Costs:

Questioned costs associated with this finding are undeterminable as there is no record maintained by the program as to the actual time spent working on the grant. However, the payroll costs charged to the program for the 6 employees for pay period August 15, 2009 were $7,819.

Recommendation:

We recommend that the supervisor reviews the time certification for each employee on a timely basis.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

The original time certifications were completed and signed in 2009 in a timely fashion. Unfortunately the original documentation was lost when responsibility for maintaining the documentation was transitioned/reassigned to the Administrative Specialist III position within the Director's Office when the Human Resources Timekeeping Liaison position was vacant. During this transition the documentation was lost and when the gap was discovered, the certifications were recreated, but dated in error by the responsible manager. In the future, the liaison, in conjunction with the Administrative Specialist II in the Director's office will ensure that the supervisors provide complete and timely certification for staff and that the documentation is effectively retained and stored in a central location.

We also disagree that the salaries were inappropriately allocated to the Child Support Enforcement program. These staff worked 100% on the Child Support program and their effort benefited no other program, which the manager would attest to – but was not interviewed. Additionally, the manager oversaw

these staff on a continuous basis during the audit period to the present and can affirmatively attest to the fact that the staff effort benefited no program other than Child Support.

Anticipated Completion Date: September 2010.

Auditors’ Response:

Appropriate timely documentation is required to validate time charges.

Department of Health and Social Services
Division of Child Support Enforcement
Reference number: 10-CSE-02
Programs: Child Support Enforcement (93.563, S-93.563)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Special Test and Provisions- Enforcement of Support Obligations

Condition:

For 1 of 65 support obligation cases sampled, the non-custodial parent (NCP) was delinquent on paying child support for more than 60 days and the agency did not initiate enforcement (i.e. court petition) within the required timeframes.

Criteria:

Enforcement of Support Obligations (Per A-133 June 2010 Compliance Supplement)

For call cases referred to the IV-D agency or applying for services under 45 CFR section 302.33 or 45 CFR section 309.65(a)(2) in which an obligation to support and the amount of the obligation has been established, the agency must maintain a system for (a) monitoring compliance with the support obligation; (b) identifying on the date the parent fails to make payments in an amount equal to support payable for one month, or an earlier date in accordance State or tribal law, those cases in which there is a failure to comply with the support obligation; and (c) enforcing the obligation. To enforce the obligation the agency must initiate income withholding, if required by and in accordance with 45 CFR section 303.100 or 45 CFR section 309.110. State IV-D agencies must initiate any other enforcement action, unless service of process is necessary, within 30 calendar days of identification of the delinquency or other support-related noncompliance, or location of the absent parent, whichever occurs later. If service of process is necessary, service must be completed and enforcement action taken within 60 calendar days of identification of the delinquency or other noncompliance, or the location of the absent parent whichever occurs later. If service of process is unsuccessful, unsuccessful attempts must be documented and meet the State's guidelines defining diligent efforts. If enforcement attempts are unsuccessful, the State IV-D agency should determine when it would be appropriate to take an enforcement action in the future and take it at that time (45 CFR section 303.6). Optional enforcement techniques available for use by the State's are found at 45 CFR sections 303.71, 303.73, and 303.104.

Cause:

Non-compliance with the enforcement of support obligations was due to lack of oversight by the assigned case employee worklist and supervisor.

Effect:

If action is not taken within the required time frames, the client (custodial parent) may not receive the child support payments entitled to them.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that management strengthen internal controls, including the following initiatives:

1. Worklist management initiative
2. Training initiative
3. Redistribution of caseloads
4. Division of Child Support Enforcement/Division of Social Services interface
5. New DACES system

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

While DCSE concurs with the findings, we are also pleased with the progress made in this area since last year's Single Audit. The Division of Child Support Enforcement has taken and will continue to take the following corrective actions in response to this finding.

The following points address the recommendations contained in the finding in the order they are listed.

- **Work list management initiative**

Phase I: Eliminate the creation of duplicate work list items.
Completed September 5, 2004

Phase II: Consolidation of the creation of the work list items, including a new hierarchy of the work list items.
Completed April 17, 2005

Phase III: Will adjust the processing and timing of interstate related cases and remove the isolated absent parent locate function (APLS), giving that function to all caseworkers.
Completed June 20, 2007

Phase IV: All processes and work lists should allow cases to be worked until eventual completion without the indefinite suspension of any case minus some form of notification or processing by an automated function. The second goal of this phase requires an analysis of the priority schemes applied to Work List items.

Completed June 2010

Phase V: Evaluation
Completion of the total Work List Management initiative was completed in December 2010, with that being said management will from time to time work with Division systems staff to ensure Worklist functionality is still meeting the intent of this initiative.

- **Training initiative**

DACSES Work List Management training was conducted statewide with division employees. In accordance with this recommendation, the training was part of the ongoing work-list management initiative to assist DCSE staff with better manage of their overall caseload and in accordance with Federal case processing guidelines.

The training was developed to enable staff to be able to navigate and manage a work-list utilizing the new functionalities in the Work List Management screen. Work List Management training will continue on a regular basis to DCSE employee.
Completed June 9, 2006, June 21, 2006, January 27, 2010, and March 31, 2010. The DCSE Training Unit during the past fiscal year (2010) conducted seven Worklist Maintenance classes for approximately 18 operation's unit staff. This will continue to be an ongoing process as the DCSE Training Unit offers an open computer lab for staff to fine tune work list management skills.

- **Redistribution of caseloads**

DCSE will redistribute caseloads so that staff is responsible for specific tasks on multiple types of cases. To do this, Child Support Specialists (CSS) will be placed into two primary functional categories: Establishment Workers and Enforcement Workers. Establishment Workers will be responsible for a case from the time of application/intake until the time a support order is established. Among their primary duties (in addition to establishing an order) will be parent locate and paternity establishment. Enforcement Workers will be responsible for a case from the time the order is recorded until the case is closed, taking all required enforcement and modification action necessary to properly work the case.

There will be two exceptions to the Caseload Redistribution initiative. Dedicated workers will handle Foster Care cases and cases in which the Non-Custodial Parent resides out of state (known as APO cases), from intake to case closure. A statewide Foster Care Unit will be established in New Castle County, while APO workers will be deployed in each county.

Mandatory training that covers all aspects of case processing remains in development and will be provided to all Child Support Specialists prior to the redistribution of cases.
Completed January 22, 2008

- **Division of Child Support Enforcement/Division of Social Services interface**

Our automatic interface of medical insurance information with the Division of Social Services /Medicaid began May 16, 2008. DCSE staff no longer needs to send paper copies of our DCSE medical questionnaire to the Medicaid office, as information entered into DACSES is sent via the interface once a month.

Effective October 2008, DACSES now enters a notation on the case events screens when information is sent via the interface. The entry will appear for all cases sent to Medicaid, starting with May 2008 data.
Completed October 2008

The DSS interface will be reengineered with the implementation of the new DACSES system scheduled for completion in FY 2013.

- **New post-court DACSES screen- (action taken different than original corrective action plan);**

The data necessary for the medical interface is currently captured in other areas of DACSES. Management has decided not to implement the post-court screen and will upgrade the existing functionality when DACSES is replaced.

- **National medical support notice**

DCSE fully implemented the National Medical Support Notice.
Completed July of 2004

- **New DACSES system (partially corrected)**

DCSE received approval of the Implementation Planning Document and the RFP for solicitation of an implementation vendor in May 2009. The RFP was issued in July of 2009 and the bids were returned in September 2009. Currently DCSE is in active negotiations with vendors for both the implementation activities and the quality assurance services. The contracts will be submitted to OCSE in March 2010 for approval and project kickoff is anticipated for May 1, 2010.

Anticipated completion date: SFY 2013.

Department of Health and Social Services
Division of Child Support Enforcement
Reference number: 10-CSE-03
Programs: Child Support Enforcement (93.563, S-93.563)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Special Test and Provisions – Establishment of Paternity and Support Obligation

Condition:

For 4 of 65 support obligation cases sampled, paternity was not established or attempted to be established within the required timeframes for children born out of wedlock.

Criteria:

Establishment of Paternity and Support Obligations (Per A-133 June 2010 Compliance Supplement)

The IV-D agency must attempt to establish paternity and a support obligation for children born out of wedlock. The agency must establish a support obligation when paternity is not an issue. These services must be provided for any child in cases referred to the IV-D agency or to individuals applying for services under 45 CFR section 302.33 or 45 CFR section 309.65(a)(2) for whom paternity or a support obligation had not been established (45 CFR sections 303.4 and 303.5, 45 CFR sections 309.100 and 309.105). For State IV-D agencies, these services must be provided within the time frames specified in 45 CFR sections 303.3(b)(3) and (b)(5), 303.3(c) and, 303.4(d).

Cause:

Non-compliance with the establishment of paternity and support obligations was due to lack of oversight by the assigned case employee worklist and supervisor.

Effect:

If action is not taken within the required timeframe to establish paternity, when applicable, court petitions and support obligations cannot be established.

Questioned Costs:

Questioned costs associated with this finding are undeterminable as there is no record maintained by the program as to the actual support obligation assigned to the non-custodial parent (NCP).

Recommendation:

We recommend that management continue with its corrective action plan including the following initiatives:

1. Worklist management initiative

2. Training initiative
3. Redistribution of caseloads
4. Division of Child Support Enforcement/Division of Social Services interface
5. New DACES system

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

While DCSE concurs with the findings, we are also pleased with the progress made in this area since last year's Single Audit. The Division of Child Support Enforcement has taken and will continue to take the following corrective actions in response to this finding.

The following points address the recommendations contained in the finding in the order they are listed.

- **Work list management initiative**

Phase I: Eliminate the creation of duplicate work list items.
Completed September 5, 2004

Phase II: Consolidation of the creation of the work list items, including a new hierarchy of the work list items.
Completed April 17, 2005

Phase III: Will adjust the processing and timing of interstate related cases and remove the isolated absent parent locate function (APLS), giving that function to all caseworkers.
Completed June 20, 2007

Phase IV: All processes and work lists should allow cases to be worked until eventual completion without the indefinite suspension of any case minus some form of notification or processing by an automated function. The second goal of this phase requires an analysis of the priority schemes applied to Work List items.
Completed June 2010

Phase V: Evaluation
Completion of the total Work List Management initiative was completed in December 2010, with that being said management will from time to time work with Division systems staff to ensure Worklist functionality is still meeting the intent of this initiative.

- **Training initiative**

DACSES Work List Management training was conducted statewide with division employees. In accordance with this recommendation, the training was part of the ongoing work-list management initiative to assist DCSE staff with better manage of their overall caseload and in accordance with Federal case processing guidelines.

The training was developed to enable staff to be able to navigate and manage a work-list utilizing the new functionalities in the Work List Management screen. Work List Management training will continue on a regular basis to DCSE employee.
Completed June 9, 2006, June 21, 2006, January 27, 2010, and March 31, 2010. The DCSE Training Unit during the past fiscal year (2010) conducted seven Worklist Maintenance classes for approximately 18 operation's unit staff. This will continue to be an ongoing process as the DCSE Training Unit offers an open computer lab for staff to fine tune work list management skills.

- **Redistribution of caseloads**

DCSE will redistribute caseloads so that staff is responsible for specific tasks on multiple types of cases. To do this, Child Support Specialists (CSS) will be placed into two primary functional categories: Establishment Workers and Enforcement Workers. Establishment Workers will be responsible for a case from the time of application/intake until the time a support order is established. Among their primary duties (in addition to establishing an order) will be parent locate and paternity establishment. Enforcement Workers will be responsible for a case from the time the order is recorded until the case is closed, taking all required enforcement and modification action necessary to properly work the case.

There will two exceptions to the Caseload Redistribution initiative. Dedicated workers will handle Foster Care cases and cases in which the Non-Custodial Parent resides out of state (known as APO cases), from intake to case closure. A statewide Foster Care Unit will be established in New Castle County, while APO workers will be deployed in each county.

Mandatory training that covers all aspects of case processing remains in development and will be provided to all Child Support Specialists prior to the redistribution of cases.
Completed January 22, 2008

- **Division of Child Support Enforcement/Division of Social Services interface**
  (Partially corrected)

Our automatic interface of medical insurance information with the Division of Social Services /Medicaid began May 16, 2008. DCSE staff no longer needs to send paper copies of our DCSE medical questionnaire to the Medicaid office, as information entered into DACSES is sent via the interface once a month. Effective October 2008, DACSES now enters a notation on the case events screens when information is sent via the interface. The entry will appear for all cases sent to Medicaid, starting with May 2008 data.
Completed October 2008

The DSS interface will be reengineered with the implementation of the new DACSES system scheduled for completion in FY 2013.

- **New post-court DACSES screen- (action taken different than original corrective action plan);**

The data necessary for the medical interface is currently captured in other areas of DACSES. Management has decided not to implement the post-court screen and will upgrade the existing functionality when DACSES is replaced.

- **National medical support notice**

DCSE fully implemented the National Medical Support Notice
Completed July of 2004

- **New DACSES system (partially corrected)**

DCSE received approval of the Implementation Planning Document and the RFP for solicitation of an implementation vendor in May 2009. The RFP was issued in July of 2009 and the bids were returned in September 2009. Currently DCSE is in active negotiations with vendors for both the implementation activities and the quality assurance services. The contracts will be submitted to OCSE in March 2010 for approval and project kickoff is anticipated for May 1, 2010.

Anticipated completion date: SFY 2013.

Department of Health and Social Services
Division of Child Support Enforcement
Reference number: 10-CSE-04
Programs: Child Support Enforcement (93.563, S-93.563)
Type of Finding: Significant Deficiency
Compliance Requirement: Suspension & Debarment

Condition:
The State has implemented a "boiler-plate" contract which states that they (the vendor) are neither suspended nor debarred from Federal procurement and non-procurement transactions. One contract for $617,586, out of three contracts tested with a total value of $1,093,048, did not include the suspension and debarment language in the contract or contract amendment signed by the vendor. The total population of contracts exceeding $25,000 for this program was $2,527,487. The Excluded Parties List System (EPLS) was reviewed during the audit process, and none of the vendors included in the testing was on the EPLS.

Criteria:
Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a non procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the EPLS maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Cause:

Contract amendments standard language has not been updated to include suspension and debarment language for modification to contracts prior to 2009 or to contract extensions.

Effect:
The Program may award federally funded contracts to disallowed vendors at the time of the amendment.

Questioned Costs:
We noted that this is not a compliance issue as the vendors tested were not on the EPLS listing.

Recommendation:

We recommend that all new contracts and amendments include the new suspended and debarred language as required by the compliance supplement.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

We will review contract boilerplate prior to execution to assure that the suspension and debarment language is included.

Anticipated Completion Date: Immediately.

Department of Health and Social Services
Division of Child Support Enforcement
Reference number: 10-CSE-05
Programs: Child Support Enforcement (93.563, S-93.563)
Type of Finding: Material Weakness
Compliance Requirement: Reporting

Condition:

Based on our review of the June 30, 2010 SF-272 Non-ARRA Report for the Child Support Enforcement Program, the federal share of net disbursements were $8,000,000 higher than the amount recorded on Delaware Financial Management System (DFMS) for the same period. The federal share of net disbursements for the fiscal year 2010 amounted to $10,965,673.

Criteria:

The Delaware Child Support Enforcement Program is required to report the federal share of net disbursements on a quarterly basis on the SF-272, Federal Cash Transactions Report.

Cause:

Because of a typo that occurred when creating the report, the federal share of net disbursements did not agree to DFMS.

Effect:

The amount of federal share of net disbursements was incorrectly stated on the Report and could not be easily reconciled to DFMS.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that the Child Support Enforcement Program enhances its reporting procedures and processes to ensure all reports are reconciled to DFMS to DFMS prior to being submitted.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

Effective immediately, the Divisions Fiscal management analyst will be required to reconcile the Federal reports to FSF system and report on the reconciliation prior to submitting the reports for approval.

Anticipated Completion Date: February 2011.

Department of Health and Social Services
Division of Public Health
Reference number: 10-DPH-01
Programs: Capitalization Grants for Drinking Water State Revolving Funds (66.468, S-66.468)
Special Supplemental Nutrition Program for Women, Infants and Children (10.557)
Immunization Cluster (93.268, S-93.268, S-93.712)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Allowable Costs (Effort Reporting)

Condition:

DWSRF
During our testwork over time and effort reporting, we noted two employees out of 40 tested whose time and effort report that covers the pay periods end date 8/15/2009, 10/10/2009, 12/5/2009, and 2/13/2010 were not completed. The salary paid to the employees for the pay periods noted amounted to $10,504 out of $64,749 sampled. The total payroll for the program was $846,039.

WIC
During our testwork over time and effort reporting, we noted one employee out of 65 tested whose time and effort report that covers the pay period end date 8/15/2009 was not completed. The salary paid to the employees for the pay period noted was $1,971 out of the $78,647 sampled. The total payroll for the program was $2,035,628.

Immunization
During our testwork over time and effort reporting, we noted two employees out of 65 tested whose time and effort report that covers the pay period end date 12/5/2009 were not completed. The salary paid to the employees for the pay period noted amounted to $390 out of the $65,457 sampled. The total payroll for the program was $876,614.

Criteria:

Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3)

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations

of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

Substitute systems, which use sampling methods, must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results.
- The entire time period being sampled.
- The results must be statistically valid and applied to the period being sampled. (OMB circular A-87, Attachment B.8.h.6)

Cause:

DWSRF, WIC, and Immunization
The budgeted amounts in the PHRST payroll system were used to calculate the amounts to be charged for an employee's pay. The budgeted amounts are used to post to the ledger, and time and effort certifications were not completed for all employees to enable the programs to adjust to the actual effort, or document the fact that the employee worked in one program for the last semi-annual period.

Effect:

DWSRF, WIC, and Immunization
Salaries and benefits of employees who work on federal programs are being charged to federal grants without proper documentation.

Questioned Costs:

DWSRF
Questioned costs are $10,504, which represents the salary paid to two employees for the 8/15/09, 10/10/09, 12/5/09, and 2/13/10 pay periods.

WIC
Questioned costs are $1,971, which represents the salary paid to the one employee for the 8/15/09 pay period.

Immunization
Questioned costs are $390, which represents the salary paid to the employees for the 12/5/09 pay period.

Recommendation:

We recommend that all certifications be completed in a timely manner and be maintained on file as support for each employee's time charged to a grant, and any difference between budgeted hours and certified hours get adjusted in a timely manner.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

The DWSRF incomplete time and effort reports cited for the Public Health Treatment Program Administrator and the Information Systems Support Specialist were the result of an administrative oversight on the part of the Office of Drinking Water. Clearly the Public Health Treatment Program Administrator who controls the Office of Drinking Water worked solely on the Drinking Water Program. The Information Systems Support Specialist who is responsible for the Drinking Water computer systems clearly worked solely on the Drinking Water Program.

The Immunization incomplete time and effort reports cited for the Registered Nurse and the Administrative Specialist were the result of an administrative oversight on the part of the Immunization Program. These two employees were assigned to and work solely on the Immunization Program. Clearly there salaries charges are allocable exclusively to the Immunization Program.

The WIC incomplete time and effort reports cited for the State Service Center WIC Program Supervisor was the result of an administrative oversight by the WIC Program that resulted in the report being unsigned by the employee's supervisor. Clearly the WIC Program Supervisor works solely on the WIC Program as the Northern Health Services Supervisor. Her salary charges are exclusively allocable to the WIC program.

The DPH Budget and Financial Services Bureau will stress with each program and section through written periodic communication the necessity of completing employee time and effort reports and retaining documentation as required by OMB Circular A-87. A Management Analyst III has been assigned responsibility in the Budget and Financial Services Bureau for monitoring compliance within DPH.

Anticipated Completion Date: March 2011.

Department of Health and Social Services
Division of Public Health
Reference number: 10-DPH-02
Programs: Special Supplemental Nutrition Program for Women, Infants and Children (10.557)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Reporting

Condition:

During our review of the FNS-798A, Annual Closeout Report for the 2010 WIC grant, we noted that insufficient documentation was maintained in order to ensure the accuracy of amounts being reported to the USDA. The administrative costs of $3,951,000 agreed to the amounts in the Delaware Financial Management System (DFMS), the State's accounting system, in total; however, the breakout of the administrative costs on the FNS-798A could not be determined to be accurate based on the supporting documentation maintained by the agency.

Criteria:

FNS-798A, *Addendum to WIC Financial Management and Participation Report - NSA Expenditures (OMB No. 0584-0045)* - State agencies prepare the FNS-798A annually to report: (1) NSA expenditures by function for the fiscal year being closed out; (2) the method by which NSA expenditures were charged as indirect costs; and (3) the method by which the indirect cost amount was determined. FNS uses the amounts reported in nutrition education and breast-feeding promotion and support, two of the four functional categories on the FNS-798A, to determine whether the State agencies met the statutory minimum spending level for those functions.

Cause:

Proper supporting documentation was not maintained in order to clearly reconcile amounts reported to the State's accounting system (DFMS).

Effect:
NSA expenditures by function for the period being reported may be misstated.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

We recommend that the program's policies and procedures be amended to ensure that all appropriate supporting documentation and schedules are maintained to show how amounts reported reconcile to the State's accounting system (DFMS).

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

As the result of the loss of a critical employee due to a serious illness, the necessary supporting documentation was not maintained to ensure the accuracy of amounts reported to the USDA on the FNS-798A report. It should be pointed out that lack of documentation had not been noted in previous years.

Subsequently, the Division of Public Health (DPH) prepared and submitted on January 20, 2011, a revised final report that is now properly supported and the breakout of administrative costs on the report are accurate based on supporting documentation.

By way of corrective action, DPH has revised how the fiscal documentation is maintained, reviewed, and approved through enhanced supervisory oversight in the WIC program to avoid any reoccurrence.

Anticipated Completion Date: Completed

Department of Health and Social Services
Division of Public Health
Reference number: 10-DPH-03
Programs: Capitalization Grants for Drinking Water State Revolving Funds (66.468, S-66.468)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Subrecipient Monitoring

Condition:

During our review of the Subrecipient Monitoring procedures for the Capitalization Grants for Drinking Water State Revolving Funds (DWSRF) program, we noted the following:

1) Subrecipient A-133 Audit Compliance Certifications were not mailed out to the subrecipients in accordance with State policy (telephone conversations were used instead of official confirmation).

2) Documentation over the subrecipients' financial information and A-133 single audit reports was unavailable for testing as the review procedures of the 2009 sub-recipient information was not completed at the time of our audit procedures, 13 months after calendar year 2009 ended.

3) Documentation evidencing the Office of Drinking Water's (ODW) site visits to each sub-recipient was not maintained to support compliance with "during the period of award monitoring" federal compliance requirements.

4) Sufficient documentation was not maintained to evidence that the ODW is properly ensuring that the agreements between the subcontractors and the subrecipients include the proper required federal regulations by the Environmental Protection Agency (EPA) and under American Recovery and Reinvestment Act (ARRA).

5) The State requires its subrecipients to provide them with monthly certifications that the subrecipients obtained weekly certified payrolls from their contractors to ensure they are in compliance with Davis-Bacon Act requirements. In our sample of two of the ten subrecipients with active projects during the year ended 6/30/10, we noted that for the Town of Smyrna, no certified payroll letters were received from the sub-recipient during the year ended 6/30/10. A letter was received outside of the audit period, on 8/20/10, certifying all payrolls from 12/21/09 through 7/6/10; however, the project began in September of 2009 and there was no evidence that the State ensured proper compliance with Davis Bacon for the time period prior to 12/21/09.

Criteria:

Per the State's *Subrecipient Monitoring Procedures for the Water Pollution Control Revolving Fund and the Drinking Water State Revolving Fund* "Subrecipients will receive a Compliance Certification form from FAB (Financial Assistance Branch) at the close of their respective fiscal year, which they are required to complete and return."

Pass-through entities are required to review financial and performance reports submitted by its subrecipients. They must also ensure that subrecipients receiving more than $500,000 of federal money comply with single audit requirements of A-133. They must also perform certain during the award

monitoring of the sub-recipient's use of Federal awards through reporting, site visits, regular contact, or other means. The requirements for subrecipient monitoring are contained in 31 USC 7502(f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. No. 104-156)), OMB Circular A-133 (§___.225, §___.310(d)(5), §___.400(d)), A-102 Common Rule (§___.37 and §___.40(a)), and OMB Circular A-110 (2 CFR section 215.51(a)), program legislation, **Section 1512(h) of ARRA, 2 CFR section 176.50(c),** Federal awarding agency regulations, and the terms and conditions of the award.

Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contacts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6). This reporting is often done using Optional Form WH-347, which includes the required statement of compliance (*OMB No. 1215-0149*).

Cause:

Due to staffing constraints, the State was unable to mail the forms in a timely manner. Additionally, proper supporting documentation with evidence of review (signature/sign-off) is not being maintained to evidence that sufficient during the award period monitoring is being performed.

Effect:

Subrecipient monitoring is not being performed and federal funds passed to subrecipients may not be spent in accordance with the grant program.

Questioned Costs:

Questioned costs of the $17.1 million sub-granted are not determinable.

Recommendation:

We recommend that all policies and procedures are followed and that timely monitoring of subrecipient A-133 audit requirements is performed to ensure they are in compliance with all federal guidelines.

We also recommend that the State prepare and maintain any checklists or summaries of review findings when performing site visits to show proper evidence that the site visit is being performed and document all procedures performed during the visit to ensure that the subrecipient is complying with federal regulations. These checklists and summaries should include proper sign off by the individuals performing the site visit and be reviewed by a manager to ensure that the conclusions reached by the preparer are appropriate and that any necessary follow up is being performed if deficiencies were identified. Managers should sign the checklist or summaries as evidence their review.

We also recommend that the State consider obtaining contracts between the sub-recipient and its contractors and review them for approval prior to the agreement being executed. Evidence of review of the contract should be maintained for audit purposes.

We recommend that the State withhold disbursement requests from those subrecipients that are not supplying the State with timely monthly certifications. We also recommend that the State ensure that they receive these certifications or perform other procedures to verify subrecipient compliance with Davis Bacon requirements.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

Title 29 Delaware Code Chapter 79 states that the Department of Natural Resources and Environmental Control (DNREC), is responsible for the Subrecipient Monitoring Procedures for the Drinking Water State Revolving Fund. As such, the Department of Health and Social Services (DHSS) Division of Public Health (DPH) Drinking Water Program (DWP) has oversight responsibility regarding DNREC's function in performing subrecipient monitoring. DHSS/DPH/DWP is planning to contract with an independent outside accounting firm to perform the subrecipient monitoring function. The contractor will be required to report the results of its monitoring to the Drinking Water Program (DWP) and to DPH on a quarterly basis.

The contractor will be required to ensure that all policies and procedures are followed and that timely monitoring of subrecipient A-133 audit requirements is performed to ensure they are in compliance with all federal guidelines.

The contractor will be required to prepare and maintain checklists and summaries of review findings when performing site visits to show proper evidence that the site visit is being performed and document all procedures performed during the visit to ensure that the subrecipient is complying with federal regulations. These checklists and summaries should include proper sign off by the individuals performing the site visit and be reviewed by a manager to ensure that the conclusions reached by the preparer are appropriate and that any necessary follow up is being performed if deficiencies were identified. Managers will sign the checklist and summaries as evidence of their review.

DHSS/DPH/DWP will require contracts between subrecipients and their contractors and will review them for approval prior to the agreement being executed. Evidence of the review of the contract will be maintained by DWP for audit purposes.

DHSS/DPH/DWP will withhold disbursement requests from those subrecipients that are not supplying the State with timely monthly certifications. DHSS/DPH/DWP will ensure that either the certifications are received or will perform other procedures to verify subrecipient compliance with Davis Bacon requirements.

Anticipated Completion Date: October 1, 2011.

Department of Health and Social Services
Division of Public Health
Reference number: 10-DPH-04
Programs: Immunization Cluster (93.268, S-93.268, S-93.712)
Type of Finding: Significant Deficiency
Compliance Requirement: Suspension and Debarment

Condition:

The State has implemented a “boiler-plate” contract which states that they (the vendor) are neither suspended nor debarred from Federal procurement and non-procurement transactions. One contract for $76,026, out of two contracts tested with a total value of $112,947, did not include the suspension and debarment language in the contract or contract amendment signed by the vendor. The total population of contracts exceeding $25,000 for this program was $407,897. The Excluded Parties List System (EPLS) was reviewed during the audit process, and none of the vendors included in the testing was on the EPLS.

Criteria:

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a non procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the EPLS maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Cause:

Contract amendments standard language has not been updated to include suspension and debarment language for modification to contracts prior to 2009 or to contract extensions.

Effect:

The Program may award federally funded contracts to disallowed vendors at the time of the amendment.

Questioned Costs:
We noted that this is not a compliance issue as the vendors tested were not on the EPLS listing.

Recommendation:

We recommend that all new contracts and amendments include the new suspended and debarred language as required by the compliance supplement.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

As background, the vendor's contract was used as the instrument to enter into a contractual relationship – not the DHSS boilerplate. Unfortunately Health did not conduct a review of the EPLS listing at the time the contract was signed. The vendor's contract was amended on 8/4/10 and on that date DPH did review the EPLS listing and provided documentation that the review was conducted.

Additionally, DHSS/DPH has taken the following corrective action to address the concerns of this finding.

Whenever a contract is entered into by DPH or an amendment processed, staff conducts a review of the EPLS listing and documents the review to the file. Additionally, if the contract to be executed employs the DHSS boilerplate, they ensure that the suspension and debarment language is contained in the boilerplate.

Anticipated Completion Date: Completed

Department of Health and Social Services
Division of Public Health
Reference number: 10-DPH-05
Programs: Special Supplemental Nutrition Program for Women, Infants, and Children (10.557)
Type of Finding: Significant Deficiency
Compliance Requirement: Eligibility

Condition:

During our review of WIC controls over Eligibility, we noted that the State's procedures required reviewing a sample of 30 WIC participant files for eligibility every 6 month period during the year. When the sample was requested, we noted that the procedures were not performed during FY 2010.

Criteria:

Per the State's *Policy and Procedure Manual* for the WIC Program, Section 10.4 *WIC Eligibility and Participant and Employee Fraud and Abuse Detection Activities,* "A random sample of 30 client records are selected and reviewed by the WIC State Agency designated staff every 6 months. This review is conducted to monitor for eligibility and the detection and prevention of employee and participant fraud and abuse, including one employee determining eligibility for all certification criteria and issuing benefits for the same participant (there must be separation of duties)."

Cause:

The cause was a lack of program oversight.

Effect:
Possible fraudulent activity could go undetected and ineligible participants may receive and obtain benefits from the WIC program.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

We recommend that the policies of section 10.4 of the Policy and Procedure Manual be put in place by the WIC program to select 30 clients for eligibility screenings for every 6 month period.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

We agree that the random sample of 30 clients was not performed. We would like to report that subsequent to this audit, random samples were taken of 30 certified participants for each of the following time periods: 6/01/09-11/30/09, 12/01/09-5/30/10, and 6/01/10-11/30/10. Each sampled participant was reviewed for proof of residency, proof of income, Delaware address, Rx for special formula, correct risk codes, correct food package, and separation of employee duties in determining eligibility. These reviews did not detect any ineligible participants or any employee or participant fraud and abuse. Program oversight has been strengthened to ensure compliance with this requirement. The next review period sample will be for the period 12/1/10-5/30/11.

Anticipated Completion Date: Completed.

Department of Health and Social Services
Division of Public Health
Reference number: 10-DPH-06
Programs: Capitalization Grants for State Drinking Water Revolving Funds (S-66.468) Immunization Cluster (S-93.712)
Type of Finding: Significant Deficiency
Compliance Requirement: Reporting – Section 1512

Condition:

The Division of Public Health did not submit the ARRA 1512 Report Approval Record for the Immunization and Capitalization Grants for State Drinking Water Revolving Funds grants to OMB for the reporting period ending March 31, 2010 as required by the Delaware OMB 1512 Reporting Instruction Manual.

Criteria:

Section 1512 of the Recovery Act requires reporting on the use of Recovery Act funding by recipients no later that the 10th day after the end of each calendar quarter (beginning the quarter ending September 30, 2009). The Delaware OMB 1512 Reporting Instruction Manual also states, "Prime recipients and approved delegated sub-recipients must also complete and have appropriate signed approval from the agency head for each report filed prior to uploading to the federal reporting system. A form for this purpose can be located at http://ww.omb.delaware.gov/arra/index.html and a copy is to be emailed to OMB_ARRA1512@state.de.us or faxed to (302)739-5661. "Copies of the final spreadsheet uploaded to the federal reporting system, as well as the sign-off sheet are to be emailed to OMB_ARRA1512@state.de.us.

The Delaware OMB 1512 Reporting Instruction Manual also states "Prior to submission to the Federal website, the Primary Recipient is responsible for ensuring that no material errors or omissions exist. A material omission is defined as "instances where required data is not reported or reported information is not otherwise responsive to the data requests resulting in significant risk that the public is not fully informed as to the status of a Recovery Act project or activity."

A significant reporting error is defined as "instances where required data is not reported accurately and such erroneous reporting results in significant risk that the public will my misled or confused by the recipient report in question. "The Prime recipient must ensure that there are no material omissions or significant reporting errors in each quarterly report.

The Delaware OMB 1512 Reporting Instruction Manual states "Data quality (i.e. accuracy, completeness and timely reporting of information) reviews required by the OMB June 22, 2009 Guidance are intended to avoid two key data problems – material omissions and significant reporting errors. Prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted. Subrecipients delegated to report on behalf of prime recipients share in this responsibility. In light of these data quality responsibilities, recipients and subrecipients should establish internal controls to ensure completeness, accuracy, and timely reporting of all amounts funded by the Recovery Act."

In addition, the State of Delaware OMB/DOA ARRA of 2009 Internal Control Guideline dated November 24, 2009 states "Organizations must set up a process for review of data quality to ensure information submitted for reporting the use of ARRA funds is accurate and timely.

Cause:

The Division of Public Health was not aware of the requirement to send the ARRA 1512 Report Approval Record. There was also no procedure in place for adequate management review of the supporting documentation and 1512 report before it was submitted to federalreporting.gov.

Effect:

The purpose of the approval form is to ensure that there are no material omissions or significant reporting errors in the quarterly report. Failure to certify the accuracy of the report does not ensure the reported information is complete and accurate. Lack of management review and clear supporting documents may leave errors undiscovered. Without proper review and approval, reported information may be inaccurate.

Questioned Costs:

There are no questioned costs related to this finding.

Recommendation:

The Division of Public Health should ensure the quality of the reported data by adequately reviewing the information before submitting it to the Federal government and should certify the review by submitting the ARRA 1512 Report Approval Record.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

As a point of clarification, prior to report submission, the ARRA 1512 reports were and are reviewed by the Senior Fiscal Administrative Officer. In addition, the Management Analyst III in the Contracts and Grants Office conducts the online submission and corrects any noted errors or omissions.

The Division of Public Health will put in place the procedure requiring that the ARRA 1512 report approval form is completed.

Anticipated Completion Date: March 2011

Department of Health and Social Services
Division of Public Health
Reference number: 10-DPH-07
Programs: Public Health Emergency Preparedness (93.069)
Type of Finding: Significant Deficiency
Compliance Requirement: Suspension and Debarment

Condition:

The State has implemented a "boiler-plate" contract which states that they (the vendor) are neither suspended nor debarred from Federal procurement and non-procurement transactions. One contract for $29,904, out of a sample of 4 contracts with a total value of $1,667,598, did not include the suspension and debarment language, nor was there a certification obtained from the vendor or documentation of the review of the Excluded Parties List System (EPLS). The total population of contracts exceeding $25,000 for the program was $3,678,003. The EPLS was reviewed during the audit process, and the vendor was not on the EPLS.

Criteria:

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a non procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the EPLS maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Cause:

The contract used was the not the State's boiler plate contract.

Effect:

The Program may award federally funded contracts to disallowed vendors.

Questioned Costs:

There are no questioned costs associated with this finding as the vendor was not suspended or debarred.

Recommendation:

We recommend that the State implements procedures to review the suspension and debarment status on vendors when non standard contracts are signed or the boiler-plate contract is not used.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

The DHSS contract format used for the contract in question was for non-professional services. Unfortunately the content of the non-professional services contract has not been updated to include the suspension and debarment language. The procurement section of the Division of Management Services will be updating the content of the standard contract format to include this language.

Anticipated Completion Date: July 2011.

Department of Health and Social Services
Division of Public Health
Reference number: 10-DPH-08
Programs: Immunization Cluster (93.268, S-93.268, S-93.712)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Special Tests and Provisions (Control, Accountability, and Safeguarding of Vaccine)

Condition:

During our review of the Control, Accountability, and Safeguarding of Vaccine compliance requirements, we noted that none of the 21 site visits we reviewed included an examination of inventory records at the provider's office to ensure proper recording of receipt, transfer, and usage of vaccine. As such, we were unable to determine whether there is proper control, accountability, and safeguarding of vaccine at provider sites.

Criteria:

Effective control and accountability must be maintained for all vaccine under the VFC program. Vaccine must be adequately safeguarded and used solely for authorized purposes (42 USC 1396s). This includes administration only to VFC program-eligible children, as defined in 42 USC 1396s(b)(2)(A)(i) through (A)(iv), regardless of the child's parent's ability to pay (42 USC 1396s(c)(2)(C)(iii)).

Cause:

The program followed CDC guidance in the program operations guide when determining the procedures provided to the Texas Medical Foundation (TMF) and, as a result, did not require the examination of inventory records as required by federal regulations.

Effect:

The program is not monitoring the providers control over the vaccine inventory.

Questioned Costs:

Questioned costs related to this finding are not determinable.

Recommendation:

We recommend the program's policies and procedures, and if necessary, the contract between the State and TMF be amended to ensure that inventory records are examined during site visits to ensure the proper recording of receipt, transfer, and usage of vaccine.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

Assessment of "Control, Accountability, and Safeguarding of Vaccine" is conducted in a variety of ways by the Immunization Program in accordance with CDC guidance. TMF conducts site visits with providers which include the VFC Provider Site Visit Questionnaire, Section I VFC Compliance. There are several questions on the questionnaire that address vaccine control, accountability and safeguarding (e.g., refrigeration/freezer temperatures, action taken if temperatures are out of range, differentiation of VFC and private stock vaccine in the storage units, effective vaccine rotation so that vaccine with shortest expiry is used first, etc.). The Immunization Program also requires providers to submit their current vaccine inventory with each vaccine order. In addition, the program requires the use of a Vaccine Return Form for vaccine that may be expired, spoiled or is no longer needed but is still viable. While not occurring frequently, the Immunization Program also employs a Vaccine Transfer Form for providers to use when transferring VFC vaccine between practices (after authorization from the Immunization Program). These forms must be submitted to the Immunization Program and are kept on file for each provider.

During the audit period covered (July 1, 2009 – June 30, 2010), there were no specific requirements within the Program Operation Guide, as provided by the CDC, to examine provider inventory records, which is the documented basis for this audit finding. However, as indicated above, the Immunization Program does have processes and procedures in place to monitor vaccine control, accountability and safeguarding. The CDC just recently implemented the requirement to examine provider inventory records in their *VFC Operations Guide, Module 8 – Vaccine Accountability, page 4 – Written Accountability Policies, Publication Date: January 2011.*

"All grantees must develop, implement, maintain and when requested, submit to CDC written vaccine accountability policies. These written policies must address: . . .

How provider vaccine inventory records are monitored to ensure that providers have adequate supplies of public and privately purchase vaccine . . ."

"(http://www.cdc.gov/vaccines/programs/vfc/downloads/vfc-op-guide/12-module-8.pdf)"

Due to the evidence stated above, the Immunization Program concurs with this finding in that it was following CDC guidance for this audit period but because it has received new guidance from CDC effective January 2011, the program will develop a policy to address the monitoring, review and documentation of provider inventory records and will include this activity as part of the required elements of a provider site assessment.

The program's policies and procedures are in place and up-to-date for this audit criteria and we are currently in a RFP process for provider site assessments. A new contract is anticipate to be in place by June 2011.

Anticipated Completion Date: June 2011.

Auditors' Response:

The auditor believes that review of inventory records are a required part of the validation of the safeguarding of the assets and the guidance was updated by CDC to reflect the requirement

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Department of Health and Social Services
Division of Public Health
Reference number: 10-DPH-09
Programs: Immunization Cluster (93.268, S-93.268, S-93.712)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Special Tests and Provisions (Record of Immunization)

Condition:

During our review of the Record of Immunization compliance requirements, we noted that for 7 of the 21 Texas Medical Foundation (TMF) site visit reports, the provider was not in compliance with the requirements of Record of Immunization. Per discussion with the contract administrator, only verbal discussions were held with the providers to inform them that sufficient record of immunization requirements were not met. As no formal documentation of follow-up procedures was maintained, we were unable to determine if sufficient follow-up action was taken, as required by federal requirements.

Criteria:

A record of vaccine administered shall be made in each person's permanent medical record (or in a permanent office log or file to which a legal representative shall have access upon request) (42 USC 300aa-25) which includes:

a. Date of administration of the vaccine;
b. Vaccine manufacturer and lot number of the vaccine; and
c. Name and address and, if appropriate, the title of the health care provider administering the vaccine.

Cause:

Based on guidance from the CDC indicating that immunization records are not high priority, the procedures provided to the Texas Medical Foundation (TMF) by the Department of Public Health did not stipulate that more detailed follow up was required for this type of non-compliance.

Effect:

The program is not in compliance with federal regulations.

Questioned Costs:

There are no known questioned costs related to this finding.

Recommendation:

We recommend the program's policies and procedures, and if necessary, the contract between the State and TMF be amended to ensure that written documentation exists of any follow up actions regarding non-compliance with federal regulations.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

Assessment of "record of immunization" is conducted during provider site visits by TMF. CDC guidelines are followed and CDC software is utilized when conducting these visits and for documentation purposes. According to CDC guidance *(The ABCs of Conducting Site Visits, section E. Site Visit Questionnaire – http://www.cdc.gov/vaccines/programs/vfc/projects/qa-site-visits.htm and the CDC's VFC Operations Guide, Module 9)* only the high priority questions [those questions preceded by a (!)] in Section I of the Site Visit Questionnaire require a written corrective action (corrective action includes follow-up). Question 31, which assesses the documentation of immunizations, is not a high priority question. Therefore, written corrective action and follow-up is not required. According to the CDC's VFC Operations Guide, Module 9: *"During or at the end of the VFC compliance site visit, reviewers should provide education to the provider staff when noncompliant behaviors or practices are observed or encountered, in order to correct the situations.* ***If the provider is found to be non-compliant with a high priority question (identified by a red "!"), corrective actions need to be documented at the end of Section One of the VFC Site Visit Questionnaire, along with next steps for follow-up and a timeframe."***

The audit finding is for ". . . no formal documentation for follow-up was maintained . . .", which is not required for this question since it is not marked as a high priority question according to CDC guidance.

Due to the evidence stated above, the Immunization Program concurs with this finding in that it was following CDC guidance; however, it now recognizes that this is an audit criterion. Therefore, for future site assessment contracts, the Program will develop a handout outlining the requirements for documenting the administration of immunizations. The program will develop a feedback form to summarize provider site assessment visits. The program will require the contractor to provide and review a copy of the handout outlining the documentation of vaccine administration. The contractor will also be required to complete the feedback form, which will document the provision of and review of the requirements for documenting the administration of vaccines. The contractor will be required to submit a copy of the feedback form to the Immunization Program for each site assessment conducted.

The program's policies and procedures are in place and up-to-date for this audit criteria and we are currently in a RFP process for provider site assessments. A new contract is anticipated to be in place by June 2011.

Anticipated Completion Date: June 2011.

Auditors' Response:

Although a written corrective action plan may not be required by the CDC guide, the federal compliance supplement requires the auditor to "Determine if the grantee took any follow-up action if the required records and information are not maintained." The lack of written documentation of follow-up prevents us from being able to complete this procedure.

Department of Health and Social Services
Division of State Service Centers
Reference number: 10-SSC-01
Programs: Low Income Home Energy Assistance Program (93.568)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirements: Allowable Costs (Non-payroll)/Subrecipient Monitoring

Condition:

The Division's policy is to perform a review of expenditure reimbursement requests submitted from the subrecipients to meet the requirements noted in the compliance supplement. For 39 out of the 43 expenditures selected for testwork, there was evidence of the Division's review; however, the Division did not review or maintain sufficient evidence with the invoice to ensure the expenditures were in accordance with the applicable federal regulations. The 39 expenditures totaled $6,096,426 out of the $6,499,518 sampled. The total expenditure population was $15,071,024.

Criteria:

U.S Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 300 states in part:

The auditee shall:

(b) Maintain internal control over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulation, and provision of contracts or grant agreements that could have a material effect on each of its programs.

(c) Comply with laws, regulation, and the provisions of contracts or grant agreements related to each of its federal programs.

U.S. office of Management and Budget Circular A-87, Cost Principles for State, Local and Indian Tribal Government (2 CFR Part 225) Appendix A, Section C, Basic Guideline, states in part:

1. Factors affecting allowability of costs. To be allowable under Federal awards, cost must meet the following general criteria:

    a. be allocable to Federal awards under the provisions of this circular…

    j. be adequately documented

In addition, allowable costs under the grant are limited to:

1. Costs used to assist eligible households to meet the costs of home energy, i.e., heating or cooling their residences (42 USC 8621(a) and 8624(b)(1)).

2. Costs used to intervene in energy-related crisis situations, as defined by the grantee (42 USC 8623(c) and 8624(b)(1)).

3. Costs used to conduct outreach activities (42 USC 8624(b)(1)).

4. Costs used to provide low-cost residential weatherization and other cost-effective energy-related home repair (42 USC 8624(b)(1)).

5. Costs used to provide services that encourage and enable households to reduce their home energy needs and thereby the need for energy assistance, including needs assessments, counseling, and assistance with energy vendors (42 USC 8624 (b)(16)).

6. Costs used to identify, develop, and demonstrate leveraging programs (45 CFR section 96.87(c)).

7. No costs may be for the purchase or improvement of land, or the purchase, construction, or permanent improvement (other than low-cost residential weatherization or other energy-related home repairs) of any building or other facility (42 USC 8628).

8. Leveraging incentive awards must be used to increase or maintain heating, cooling, energy crisis, and weatherization benefits for low-income persons (45 CFR section 96.87(j)).

9. Leveraging incentive award funds may not be used for planning, developing, or administering the LIHEAP program (45 CFR section 96.87(j)).

10. LIHEAP grantees may use some or all of the rules applicable to the Department of Energy's Weatherization Assistance for Low-Income Persons program (CFDA 81.042) for their LIHEAP funds spent on weatherization (42 USC 8624(c)(1)(D)).

Cause:

The Division has not fully implemented policies and procedures pertaining to the review of program expenditures incurred by the subrecipients prior to reimbursement.

Effect:

The Division did not fulfill its responsibilities related to allowable costs, therefore program expenditures could be spent on unallowable activities.

Questioned Costs:

Questioned costs are for the 39 items noted above amount to $6,096,426.

Recommendation:

We recommend that the Division enhance its current policies and procedures over subrecipient reimbursements of allowable costs and subrecipient monitoring to ensure that its subrecipients remit adequate documentation to allow the Division to ensure federal allowability requirements have been met.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

Prior to commencement of this audit, the Division of State Service Centers/Office of Community Services (DSSC/OCS) began a revision of its current policies and procedures to allow for monitoring of randomly selected files during the site visits to ensure that the back-up documentation is traceable to all invoices in order to verify that a payment made was based on allowable costs.

These audits will occur twelve times during the year and include a review of 150 files, with timing focused on the peak period of benefit distribution. The subrecipients (contractor agencies) will be required to include back-up of all invoices on file. This process will allow us to quickly identify any patterns of errors and address them expeditiously with corrective action.

DSSC will ensure that back-up is submitted with every invoice. The CAPTAINS (DSSC data system) generated report showing the amount of the invoice will be printed and submitted to DSSC by the contracting agencies along with their invoices. All supporting documents will be kept to match up with invoices submitted to DSSC including a copy of the canceled check from the vendor, appropriate vendor invoice, client eligibility letter and any other supporting documentation.

In addition, there will be an annual Administrative Audit employing a detail questionnaire.

Anticipated Completion Date: Completed December 2010.

Department of Health and Social Services
Division of State Service Centers
Reference number: 10-SSC-02
Programs: Low Income Home Energy Assistance Program (93.568)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Subrecipient Monitoring

Condition:

The Division monitors the subrecipients use of Federal Awards through reporting, site visits, and regular contact. We note that while the LIHEAP Program abides by these requirements, the activities they are performing at Catholic Charities site visits are not sufficient to constitute proper monitoring since substantially all of the program is run by this subrecipient. There are no specific procedures in place to select client files for eligibility monitoring but rather a different amount of files seems to be tested for each programmatic site visit. In addition, only one fiscal monitoring visit is conducted per year and 6 invoices and the related support were reviewed. Given that the subrecipient in the past has not kept adequate support with the invoice (check copy, eligibility letter, support showing what clients were serviced, etc) or sent proper support along with the invoice for reimbursement, and that 6 invoices, representing $4,182,760, were reviewed during the site visit, we feel that the site visit is not as effective or extensive as it needs to be in order to effectively monitor the subrecipient during the year. Total costs incurred by this subrecipient for the fiscal year ended June 30, 2010 was $13,452,771.

Criteria:

U.S Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 300 states in part:

In terms of subrecipient monitoring, a pass-through entity is responsible for:

During-the-Award Monitoring – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Monitoring activities normally occur throughout the year and may take various forms, such as:

Reporting – Reviewing financial and performance reports submitted by the subrecipient.

Site Visits – Performing site visits at the subrecipient to review financial and programmatic records and observe operations

Regular Contact – Regular contacts with subrecipients and appropriate inquiries concerning program activities.

Cause:

The Division has not fully implemented policies and procedures pertaining to monitoring subrecipients especially in relation to site visits conducted at the subrecipients.

Effect:

The Division did not fulfill its responsibilities related to subrecipient monitoring for their subrecipient who ran the entire program, therefore subrecipients could be administering awards in a way that does not comply with federal regulations.

Questioned Costs:

Questions costs could be no more than $13,452,771 which represents the total subrecipient expenditures.

Recommendation:

We recommend that the Division enhance its current policies and procedures over subrecipient monitoring, specifically focusing on enhancing procedures and policies for site visits in order to ensure they are effectively monitoring the subrecipients.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

We disagree with the auditors' assertion that the activities performed by the Division in regard to monitoring the sub-recipient Catholic Charities are not sufficient to constitute proper monitoring. Furthermore, we disagree with the auditors' representation of the Division's fiscal monitoring procedures.

The Division used an on-site monitoring tool to perform the fiscal monitoring of the sub-recipient. Using the monitoring tool the Division reviewed the sub-recipient's cash receipts, accounts receivable, payroll, eligibility, accounts payable, record retention, written procedures and single audit. The monitoring included extensive testing of all supporting documentation for six invoices totaling $4,182,760 that represented 31 per cent of the total sub-recipient expenditures amounting to $13,452,771. The fiscal monitoring included numerous site visits at two locations and four follow-up meetings with sub-recipient officials. The fiscal monitoring began May 14, 2009 and was completed in August 2009. A summary report was issued to the sub-recipient on August 28, 2009 that communicated the results of the monitoring review along with recommendations for improvement.

In addition to fiscal monitoring, the Division performed program monitoring site visits. In answer to the comment that we had no specific procedure for selecting client files, this is incorrect. In the past we have defined our monitoring by the number of site visits and the length of the review. We established the

number of times to do site monitoring and looked at as many files that were feasible during that visit. It is true we did not define a number of files to be reviewed, but the procedure was clear and fully executed.

Independent of this audit, we employed a consultant to assist us in updating all of our policies and procedures. While we stand by past practices as being valid, per above, program monitoring policies and procedures were enhanced and have already been implemented.

More detailed monitoring instruments have been developed. Further, we have established as a base the review of 1% (roughly 200) randomly selected client files per fiscal year in regard to heating. There will be a review of 5% (roughly 25 files) for the summer cooling program.

Further, this random selection systematically examines all categories of beneficiaries. We now examine files based on eligibility, looking at both eligible and denied households. We also review all types of program service (i.e., heating, crisis, air conditioners, and electric assistance). The Recommendation from the auditor did not include a method for selecting client files for review, but we would like to note that the above outlined process will be employed. These changes will be evident in the SFY'2011 program monitoring.

In addition to the review of client files, there will be an annual site visit for Catholic Charities for an Administrative Review conducted by the Program Administrator. For those years when we have a cooling program, there will be one such visit for each of the two summer cooling contractor agencies providing services to our clients.

Anticipated Completion Date: SFY 2011

Auditors' Response:

The documentation retained by the LIHEAP program was not adequate to validate the level of monitoring completed. We continue to recommend management should develop a more structured, robust program for monitoring.

Department of Health and Social Services
Division of State Service Centers
Reference number: 10-SSC-03
Programs: Weatherization Assistance for Low-Income Persons (81.042, S-81.042)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Allowable Costs (non-payroll)/Subrecipient Monitoring

Condition:

The Division's policy is to perform a review of expenditure reimbursement requests submitted from the subrecipients to meet the requirements noted in the compliance supplement. For 33 out of the 65 expenditures selected for testwork, there was evidence of the Division's review; however, the Division did not receive or review sufficient documentation with the invoice to ensure the expenditures were in accordance with the applicable federal regulations or in accordance with the rates agreed upon in the contract with the subrecipients. The total expended for the 33 transactions was $637,409 out of $874,877 sampled. Also, per our review, the site visit documentation was not adequate to support the Division's review of expenditures for allowable costs. Total expenditures submitted for reimbursement for the fiscal year ended June 30, 2010 was $4,869,473 for both subrecipients.

Criteria:

U.S Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 300 states in part:

The auditee shall:

(b) Maintain internal control over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulation, and provision of contracts or grant agreements that could have a material effect on each of its programs.

(c) Comply with laws, regulation, and the provisions of contracts or grant agreements related to each of its federal programs.

U.S. Office of Management and Budget Circular A-87, Cost Principles for State, Local and Indian Tribal Government (2 CFR Part 225) Appendix A, Section C, Basic Guideline, states in part:

1. Factors affecting allowability of costs. To be allowable under Federal awards, cost must meet the following general criteria:

    a. be allocable to Federal awards under the provisions of this circular…

    j. be adequately documented

Each grantee or subgrantee receiving federal financial assistance under 10.CFR440 shall keep such records as the Department of Energy (DOE) shall require, include records which fully disclose the amount and disposition by each grantee and subgrantee of the funds received, the total cost of a weatherization project or the total expenditure to implement the State plan for which assistance was given or used, the source and

amount of funds for such project or program not supplied by DOE, the average costs incurred in weatherization of individual dwelling units, the average size of the dwelling being weatherized of individual dwelling units, the average size of the swelling being weatherized, the average income of households receiving assistance under this part, and such other records as DOE deems necessary for an effective audit and performance evaluation. Such record keeping shall be in accordance with the DOE Financial Assistance rule, 10 CFR part 600, and any further requirements.

In addition, allowable costs under this grant are limited to:

a. The cost of purchase and delivery of weatherization materials (10 CFR section 440.18(d)(1)). Funds may only be expended on weatherization materials listed in Appendix A of 10 CFR part 440 or as approved by DOE.

b. Labor costs in accordance with 10 CFR section 440.19.

c. Transportation of weatherization materials, tools, and equipment, and work crews to a storage site and/or to the site of weatherization work (10 CFR section 440.18(d)(3)).

d. Maintenance, operation, and insurance of vehicles used to transport weatherization materials (10 CFR section 440.18(d)(4)).

e. Maintenance of tools and equipment (10 CFR Section 440.18(d)(5)).

f. Purchase or annual lease of tools, equipment and/or vehicles, except that any purchase of vehicles shall be referred to DOE in every instance (10 CFR section 440.18(d)(6)).

g. Employment of on-site supervisory personnel (10 CFR section 440.18(d)(7)).

h. Storage of weatherization materials, tools, and equipment (10 CFR section 440.18(d)(8)).

i. The costs of incidental repairs to make the installation of weatherization materials effective (10 CFR section 440.18(d)(9)).

j. The costs of liability insurance for weatherization projects for personal injury and property damage (10 CFR section 440.18(d)(10))

k. The cost of carrying out low cost/no cost weatherization assistance (10 CFR section 440.20).

l. The cost of WAP financial audits in accordance with 10 CFR section 440.23.

m. Administrative costs (10 CFR section 440.18(d)(13)).

n. The costs of eliminating health hazards, necessary to ensure the safe installation of weatherization materials (10 CFR section 440.18(d)(15)).

o. Leveraging activities, as specified in leveraging section of the State Plan and grant agreement (10 CFR section 440.18(d)(14)). Leveraging entails a State obtaining additional program-targeted non-Federal

or in-kind contributions as a result of WAP-funded activities. Leveraging should be limited to contributions that can be clearly attributed to a State's weatherization activities, and that are used to augment those activities. As of Program Year (PY) 2007, the maximum percentage of Weatherization funds that can be diverted for leveraging activities is 15 percent of the grantee's total allocation.

p. Expenditures for labor, weatherization materials, and related matters for a renewable energy system, as defined in 10 CFR section 440.3, shall not exceed an average of $3,00 per dwelling unit or adjusted amount (42 USC 6865(c)(4); 10 CFR section 440.18(b)).

Cause:

The Division has not fully implemented policies and procedures pertaining to the review of program expenditures incurred by the subrecipients prior to reimbursement.

Effect:

The Division did not fulfill its responsibilities related to allowable costs, therefore program expenditures may include expenditures for unallowable activities.

Questioned Costs:

Questioned costs for the 33 transactions items noted above is $637,409 as adequate documentation could not be examined.

Recommendation:

We recommend that the Division enhance its current policies and procedures over subrecipient reimbursements of allowable costs to ensure that its subrecipients remit adequate documentation to allow the Division to ensure federal allowability requirements have been met.

Views of Responsible Official:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

The finding addresses an internal control deficiency that was presented in a finding in the 2009 Single Audit Report (Reference Number: 09-SSC-03). The 2009 finding found that the Division did not receive or review sufficient documentation with the invoice to ensure expenditures were in accordance with applicable federal regulations. The auditor recommended the Division ensure its sub-recipients remit adequate documentation to ensure federal allowability requirements have been met. The Division responded to the 2009 finding as follows: "Effective January 1, 2010 we implemented procedures requiring sub-recipients to submit supporting documentation with their reimbursements requests to ensure that federal allowability requirement is met." It should be noted the Division identified the documentation problem and implemented the enhanced documentation procedures prior to the 2009 audit finding.

For the 2010 audit finding, the auditor provided us with their work paper identifying the 33 payment vouchers they reviewed where the associated invoices submitted by the sub-grantee were not accompanied by sub-contractor invoices. Sub-contractor invoices included a description of work performed and materials used to weatherize homes; for instance, caulking, insulation, furnace repair, etc. Sub-contractors invoices were necessary so the WAP program supervisor could determine if the expenditure was allowable before approving for payment. The Division found that all but one of the 33 exceptions identified by the auditor for the 2010 finding were for invoices that were dated prior to January 1, 2010 – the date the Division implemented the enhanced documentation requirements. We disagree with the auditor's conclusion that the one invoice dated 1/27/10 (after the date the Division implemented the enhanced documentation requirements) had insufficient documentation. The invoice did have the sub-contractor's invoice attached that documented the work performed. Therefore, the auditor's testing confirmed the 2009 audit recommendation was complied with and the corrective action plan was properly implemented. No further action is necessary.

Anticipated Completion Date: Completed.

Auditors' Response:

We recognize the prior year corrective action plan was not implemented until the middle of the current fiscal year under audit.

Department of Health and Social Services
Division of State Service Centers
Reference number: 10-SSC-04
Programs: Weatherization Assistance for Low-Income Persons (81.042, S-81.042)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Allowable Costs (non-payroll)

Condition:

The Division's policy is to perform a review of expenditure reimbursement requests submitted from the subrecipients to meet the requirements noted in the compliance supplement. For 2 out of the 65 expenditures selected for testwork, there was evidence of the Division's review; however, upon review of the supporting documentation, part of the costs for these PV's were used to purchase air conditioning units, which due to Delaware's climate, are not allowed. Total expenditures spent on unallowable activities that we selected for testing were $11,720. The total expenditures selected for testwork was $874,877 out of the total population of $4,869,473.

Criteria:

U.S Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 300 states in part:

The auditee shall:

(b) Maintain internal control over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulation, and provision of contracts or grant agreements that could have a material effect on each of its programs.

(c) Comply with laws, regulation, and the provisions of contracts or grant agreements related to each of its federal programs.

U.S. Office of Management and Budget Circular A-87, Cost Principles for State, Local and Indian Tribal Government (2 CFR Part 225) Appendix A, Section C, Basic Guideline, states in part:

1. Factors affecting allowability of costs. To be allowable under Federal awards, cost must meet the following general criteria:

   b. be allocable to Federal awards under the provisions of this circular.

   c. be authorized or not prohibited under State or local laws of regulations.

In addition, allowable costs under this grant are limited to (in part):

a. The cost of purchase and delivery of weatherization materials (10 CFR section 440.18(d)(1)). Funds may only be expended on weatherization materials listed in Appendix A of 10 CFR part 440 or as approved by US Department of Energy (DOE).

Per the DOE, the use of funds for the purchase or installation of air conditioners is not allowed for the State of Delaware based on its climate.

Cause:

The Division has not fully implemented policies and procedures pertaining to reviewing allowable costs for the Program as well as guidance on allowable costs for program expenditures.

Effect:

The Division did not fulfill its responsibilities related to allowable costs therefore program expenditures could be spent on unallowable activities.

Questioned Costs:

Questioned costs are $11,720.

Recommendation:

We recommend that the Division enhance its current policies and procedures over reviewing subrecipient reimbursements of allowable costs and update the guidance used for determining allowable costs so that subrecipients expend money on allowable costs to ensure federal allowability requirements are being met.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

All of the costs of the Weatherization Program are being reviewed, on a home by home basis, as part of the corrective action effort with DOE. In this regard, the Division will comply with DOE's final determination regarding any questioned costs. The responsibilities for the Weatherization Assistance for Low-Income Persons Program have been transferred to the Department of Natural Resources and Environmental Control.

Anticipated Completion Date: Subject to final review by the DOE.

Department of Health and Social Services
Division of State Service Centers
Reference number: 10-SSC-05
Programs: Weatherization Assistance for Low-Income Persons (81.042, S-81.042)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Earmarking

Condition:

The Program's policy is to have a staff update earmarking spreadsheets on a monthly basis for all current grants and then send the spreadsheets to management for review. The earmarking spreadsheets detail the amount and type of expenditures cumulatively for each grant. Management uses this to ensure earmarking requirements are being met. Upon review, three out of the eight earmarking spreadsheets chosen for testing, revealed that more expenditures had been used on administrative costs both by the State and subrecipients than what is allowed per the grant agreement. The spreadsheets were for the period 9/30/09 for Grant #08013101 and 3/31/10 and 6/30/10 for Grant 09012908.

Criteria:

The Weatherization Program must meet the following requirements as they relate to earmarking:

a. Not more than 10 percent of funds may be used in total or in part for administrative costs. A State shall not expend more than 5 percent for such administrative costs, with at least 5 percent going to subrecipients for administration. Subrecipients may spend no more than 10 percent of the grant for administration; however, for subrecipients receiving grants of less than $350,000, a State may permit that entity to expend up to an additional 5 percent of its subgrant for administrative purposes (10 CFR section 440.18(e)).

b. Not more than 20 percent of the funds may be used to provide, directly or indirectly, training and/or technical assistance to any grantee or subgrantee (42 USC 6866, as amended by Section 407(d), ARRA, 123 Stat 146; 10 CFR section 440.23(e)).

Cause:

The Program has not fully implemented policies and procedures surrounding the budgeting and monitoring of expenditures to ensure compliance with federal earmarking requirements.

Effect:

The Program's administrative costs., on both on a State and subrecipient level, exceeded what is allowed per federal guidance.

Questioned Costs:

Questioned costs are $134,119 which represents the administrative costs in excess of 10% expended by the State and subrecipients.

Recommendation:

We recommend that the Division enhance its current policies and procedures over earmarking to ensure that earmarking requirements are being met both on a State and subrecipient level.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

All of the costs of the Weatherization Program are being reviewed, on a home by home basis, as part of the corrective action effort with DOE. In this regard, the Division will comply with DOE's final determination regarding any questioned costs. The responsibilities for the Weatherization Assistance for Low-Income Persons Program have been transferred to the Department of Natural Resources and Environmental Control.

Anticipated Completion Date: Subject to final review by the DOE.

Department of Health and Social Services
Division of State Service Centers
Reference number: 10-SSC-06
Programs: Weatherization Assistance for Low-Income Persons (S-81.042)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Subrecipient Monitoring - ARRA

Condition:

The Subrecipient contracts selected for testing did not contain all the information required to meet the subrecipient monitoring of ARRA awards requirement. While the contract was signed and had appropriately identified the Federal Award number, the CFDA #, and total ARRA funds, it did not contain any language directing the subrecipients to provide separate identification of ARRA awards in its Schedule of Expenditures and Federal Awards (SEFA) and Data Collection Form (SF-SAC) as is required.

Criteria:

Federal agencies must require recipients to agree to:

(1) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA funds; and (2) require their subrecipients to provide similar identification (as noted in R2 above) in their SEFA and SF-SAC. Additional information, including presentation requirements for the SEFA and SF-SAC, is provided in Appendix VII (2 CFR section 176.210).

Cause:

The Program has not fully implemented policies and procedures pertaining to reviewing and monitoring contracts with subrecipients especially in relation to new ARRA requirements.

Effect:

Subrecipients may not be correctly separating or identifying ARRA vs. Non-ARRA expenditures on their SEFA and Data Collection Form as is required.

Questioned Costs:

Questioned costs related to this finding could be no more than $2,317,743 which represents the total expenditures for the subrecipient.

Recommendation:

We recommend that the Program enhance its current policies and procedures over reviewing and monitoring contracts, specifically focusing on enhancing procedures and policies for updating contracts for new ARRA requirements.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

We will amend the subrecipients' current contracts to include language directing the subrecipients to provide separate identification of ARRA awards in their Schedule of Expenditures and Federal Awards (SEFA) and Data Collection Form (SF-SAC).

Anticipated Completion Date: March 2011.

Department of Health and Social Services
Division of State Service Centers
Reference number: 10-SSC-07
Programs: Weatherization Assistance for Low-Income Persons (81.042, S-81.042)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Subrecipient Monitoring

Condition:

The Program must review award documents to ensure the subrecipient registered with Central Contracting Registration (CCR) before subawards given. The Division could not provide support that the CCR had been checked and reviewed before award was given. The Program also monitors the subrecipients' use of Federal Awards through reporting, site visits, and regular contact. While site visits were conducted on the subrecipient selected for testwork, the activities performed at the site visits do not constitute adequate monitoring. There are no specific procedures documented to identify client files tested for eligibility and only one monitoring visit is conducted per year. Six invoices were reviewed during the fiscal site visit and 6% of the completed jobs were reviewed at the programmatic site visit. The site visit is not as effective or extensive as it needs to be in order to monitor the subrecipient during the year. We note that an enhanced monitoring tool was developed by the Division in April 2010, but has not been implemented.

Additionally, we reviewed a Department of Energy (DOE) monitoring report of the program, dated June 2010, that identified significant issues at the sub-contractors of the program not identified by the Division's monitoring.

Criteria:

U.S Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, Section 300 states in part:

In terms, of subrecipient monitoring, a pass-through entity is responsible for:

During-the-Award Monitoring – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Monitoring activities normally occur throughout the year and may take various forms, such as:

Reporting – Reviewing financial and performance reports submitted by the subrecipient.

Site Visits – Performing site visits at the subrecipient to review financial and programmatic records and observe operations

Regular Contact – Regular contacts with subrecipients and appropriate inquiries concerning program activities.

A pass-through entity must also review whether subrecipients receiving ARRA funding have current CCR registrations prior to making sub-awards and perform periodic checks to ensure that subrecipients are updating information, as necessary.

Cause:

The Division has not fully implemented policies and procedures pertaining to monitoring subrecipients especially in relation to before and during award monitoring.

Effect:

The Division did not fulfill its responsibilities related to the monitoring of subrecipients, therefore subrecipients could be administering awards in a manner that does not comply with federal regulations.

Questioned Costs:

Questioned costs associated with this finding could be no more than $4,869,473 which represents total subrecipient contract expenditures for both subrecipients.

Recommendation:

We recommend that the Division enhance its current policies and procedures over subrecipient monitoring, specifically focusing on enhancing procedures and policies surrounding before and during award monitoring in order to ensure that subrecipients are effectively monitored.

Views of Responsible Officials:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

In regard to the auditor's assertion that the Division did not properly verify sub-recipient's CCR registration, we offer the following:

As part of the federal OMB and State procedures required to prepare the ARRA 1512 reports, the Division obtained subrecipients Central Contracting Registration (CCR) data. During September 2009, prior to processing any grant expenditures, the sub-recipient supplied the division with their Central Contracting Registration (CCR) number which was verified in CCR system as being the number assigned to the sub-recipient. The CCR confirmed that the sub-recipient has a current registration and verified that the sub-recipient registration had existed in the system previously. The sub-recipient's correct CCR number was presented on the 1512 report as required.

In regard to the auditor's assertion that sub-recipient monitoring was not adequate during their audit period, we offer the following:

We disagree with auditor's assertion that activities performed at site visits did not constitute adequate monitoring. Furthermore, we disagree with the auditor's representation of the monitoring procedures performed during the audit period.

All clients that received weatherization services were monitored for eligibility during the audit period. The Division verified client's names and addresses with the CAPTAINS, an eligibility system used by Catholic Charities to confirm that all LIHEAP client eligibility requirements were met including confirmation that clients' income did not exceed 200% of poverty. For clients not found in the CAPTAINS, we verified their income met eligibility criteria through the CAPS system. The CAPS is an eligibility verification system used by DSSC for State and Federally funded assistance programs. We reviewed applications and income documentation in client files maintained by the two sub-grantees for those clients that were not found in CAPTAINS or CAPS.

The Division prepared a comprehensive financial monitoring instrument to be used for monitoring the two subrecipients. The monitoring instrument covered (1) accounting system, (2) accounting policies and procedures, (3) budgeting, (4) program income, (5) receipts, (6) expenditures, (7) payroll, (8) allowable costs, (9) procurement, (10) reporting, (11) records retention, (12) non federal audit requirements, (13) property and equipment, (14) program contract administration, (15) vendor contracts, (16) cash management and state invoicing, and (17) Davis-Bacon compliance. The monitoring instrument was provided to DOE for their review.

Before the Division had an opportunity to use the monitoring instrument, the DOE took the lead in conducting a comprehensive monitoring of both subrecipients. Division staff accompanied DOE staff in performing the sub-recipient monitoring. The results of this extensive review were included in their Management Performance Report dated June 23, 2010 referred to in the audit finding. DOE is acutely aware of problems they identified in their report with both the grantee and sub-grantee in administering the WAP. DOE has communicated the corrective actions that both DHSS and DNREC must perform to resolve the deficiencies they identified. We determined that it would not be productive for us to conduct our own sub-recipient monitoring in addition to DOE's sub-recipient monitoring for the same period. We determined it would be more productive for the Division to work on implementing corrective actions of the deficiencies communicated to us in DOE's report. In regard to the recommendation in this finding, the responsibilities for the Weatherization Assistance for Low-Income Persons Program have been transferred to the Department of Natural Resources and Environmental Control.

Anticipated Completion Date: Subject to final review by the DOE.

Auditors' Response:

- While the CCR is correct, the program could not provide documentation that they completed CCR data review prior to the award being made.
- Based on the findings noted in the DOE review, it is clear that adequate monitoring of sub-recipient activity was not completed by the program.

Department of Health and Social Services
Division of State Service Centers
Reference number: 10-SSC-08
Programs: Weatherization Assistance for Low-Income Persons (81.042, S-81.042)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Procurement

Condition:

For the one subrecipient contract selected for testing, the contract did not include all required language, including references to 10 CFR 600/400 and Department of Energy (DOE) grant guidance/program requirements, references to usage of the Delaware Technical standards identified in the Delaware Field Guide, and references to procurement rules/requirements to procure services.

Criteria:

Per 10 CFR 600 subpart C, States and governmental subrecipients of States, shall use the same State policies and procedures used for procurements from non-Federal funds. They also shall ensure that every purchase order or other contracts includes any clauses required by Federal statutes and executive orders and their implementing regulations.

Cause:

The Division did not follow the State procurement policies and procedures.

Effect:

The Division may have awarded a federally funded contract to a subrecipient who may not be following the necessary federal regulations since the terms are missing from their contract.

Questioned Costs:

The questioned costs associated with this finding are undeterminable but could not exceed $2,317,743, which represents total amounts paid to the subrecipient during the year.

Recommendation:

We recommend that the Program update existing contracts to contain all terms, conditions, provisions, and other clauses required by state and federal guidelines and also establish a procedure to ensure all such required language is included in future contracts.

Views of Responsible Official:

Agency Contact Name: Harry Roberts, DHSS Controller

Agency Contact Phone Number: (302) 255-9235

Corrective Action Plan:

All of the costs of the Weatherization Program are being reviewed as part of the Corrective Action effort with DOE. In this regard, the Division will comply with DOE's final determination regarding any questioned costs. The responsibilities for the Weatherization Assistance for Low-Income Persons Program have been transferred to the Department of Natural Resources and Environmental Control.

Anticipated Completion Date: Subject to final review by the DOE.

Department of Labor
Reference number: 10-DOL-01
Programs: Vocational Rehabilitation Cluster (84.126, S-84.390)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Allowable Costs

Condition:

For one out of the 40 employees selected for testing, one of the 'time & effort (T&E)' reports was incorrectly completed - resulting in an understatement of time charged to appropriation 'DVR-Basic Support'.

Criteria:

Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B.8.h.3)

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but are not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.

Substitute systems, which use sampling methods, must meet acceptable statistical sampling standards, including:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results.

- The entire time period being sampled.
- The results must be statistically valid and applied to the period being sampled. (OMB circular A-87, Attachment B.8.h.6)

Cause:

A lack of oversight on the part of management in maintaining payroll files.

Effect:

Payroll related costs were understated under appropriation ‘DVR-Basic Support’.

Questioned Costs:

The incorrect T&E report was understated by $517.

Recommendation:

DOL should utilize its resources to ensure the effectiveness of policies and procedures in place to maintain that all time & effort reports are properly reviewed prior to submission.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

DVR will utilize its resources to ensure that all time & effort reports are properly reviewed prior to submission. Adding an additional approval by a member of the fiscal staff with access to the PHRST system can be implemented to ensure the accuracy of timesheets.

Anticipated Completion Date: Implemented as of March 2011.

Department of Labor
Reference number: 10-DOL-02
Programs: Vocational Rehabilitation Cluster (84.126, S-84.390)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Eligibility

Condition:

For 3 out of the 40 clients selected for testing, the client's eligibility for services was not determined within the required 60-day timeframe.

Criteria:

According to 29 USC 722 (a)(6), the designated State unit shall determine whether an individual is eligible for vocational rehabilitation services under this subchapter within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services unless

(a) exceptional and unforeseen circumstances beyond the control of the designated State unit preclude making an eligibility determination within 60 days and the designated State unit and the individual agree to a specific extension of time or;

(b) the designated State unit is exploring an individual's abilities, capabilities, and capacity to perform in work situations under paragraph (2)(B)

Cause:

A lack of oversight on the part of management in maintaining client files.

Effect:

The Department of Labor (DOL) did not make determinations of client eligibility within the timeframe required by federal regulations.

Questioned Costs:

There were no questioned costs associated with this finding as the 3 clients were ultimately deemed to be eligible.

Recommendation:

We recommend that the DOL utilize its resources to monitor the status of eligibility determinations with an aging report or tickler system to ensure they are made within the required 60-day time frame, unless exceptions granted by federal regulations occur and are properly documented in the client file.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

DVR will exercise due diligence in adhering to current policies and procedures for ensuring that eligibility determinations are made within the 60 day timeframe, including training on policies and procedures, quality assurance reviews and greater supervisory monitoring.

Anticipated Completion Date: Ongoing.

Department of Labor
Reference number: 10-DOL-03
Programs: Work Investment Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Allowable Costs

Condition:

For 1 transaction amounting to $57, out of 40 transactions tested totaling $23,083 (net), the Agency was unable to provide supporting documentation to support the expenditure. As such, there is no evidence of management review and approval for this expenditure correction transaction for fleet services (state vehicles). The total population for this sample of intergovernmental vouchers and expenditure corrections totaled $1,779,070.

Criteria:

Federal funds are received by the State for the Work Investment Act, federal CFDA numbers 17.258, 17.259, and 17.260. To be allowed under Federal awards, costs must meet the following general criteria in part (A-87, Attachment A, paragraph C.1):

- Be necessary and reasonable for proper and efficient performance and administration of Federal awards. A cost generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal Award.
- Be allocable to Federal awards under the provision of A-87.
- Be consistent with policies, regulations, and procedures that apply uniformly to both Federal wares and other activities of the governmental unit.
- Be adequately documented.

Cause:

The Division did not ensure that all transactions were properly reviewed for allowability and documented and/or did not maintain documentation to support the transaction.

Effect:

The lack of adequate internal controls resulted in a potential misappropriation of Federal Funds, unsupported purchases, and noncompliant with policies and procedures.

Review of transactions prior to processing (as evidenced by signature on the transaction document) is the primary control regarding the allowability of costs charged to federal awards.

Questioned Costs:

The known questioned costs associated with this finding are $57 as there is no supporting documentation to support the expenditure correction transaction.

Recommendation:

The Department of Labor should adhere to established policies and procedures to ensure that transactions are appropriately approved in accordance with State and Federal policy and that appropriate supporting documentation is maintained with all processed transactions.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

All documents are signed and reviewed prior to being approved on the financial management system. DOL can re-create the support that we used to pay this document; however, the original document has been misplaced. The Department agrees to review the internal control policies with staff to ensure document retention is properly adhered to.

Anticipated Completion Date: Completed.

Department of Labor
Reference number: 10-DOL-04
Programs: Work Investment Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260)
Type of Finding: Significant Deficiency
Compliance Requirement: Procurement, Suspension and Debarment

Condition:

The State of Delaware requires Certified Training Providers (CTP) engaged with the WIA program to adhere to controls set up for the WIA Program. First, a 'Memo of Understanding' detailing the transactions being put into place must be signed by the CTP and WIB director. Further, the CTPs must submit a proof of debarment consistent with Compliance regulation for 'Suspension and Debarment.'

For one out of two vendors selected for testwork, the Program did not follow the proper controls established for internal control as the respective CTP file did not contain the 'Memo of Understanding' or the proof of debarment status.

Criteria:

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions included procurement contracts for goods or services under nonprocurement transactions (e.g., grant or cooperative agreement that are expected to equal or exceed $25,000 or meet certain criteria.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity or adding a clause or condition to the covered transaction with that entity.

Cause:

The Division did not follow the State suspension and debarment policies and procedures as well as internal control policies and procedures set up within the WIA Program or did not maintain documentation to support that the policies and procedures were followed.

Effect:

The Programs may award federally funded contracts to disallowed vendors or services to be performed by the CTP could be ambiguous.

Questioned Costs:

There are no questioned costs associated with this finding as CTP was not suspended or debarred.

Recommendation:

We recommend that all procurement, suspension and debarment documentation, including 'Memos of Understanding' and proof of Suspension & Debarment status, be retained for the duration of the contract life.

Agency Contact Name: Kris Brooks

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

We are in agreement with the finding that one out of two vendor files did not contain the MOU and Debarment forms. The Workforce Investment Board has worked to comply with federal as well as our state standards, since taking responsibility for the maintenance of all ITA providers. We were informed in 2008 of the need for the paper copy of the debarment form and immediately the condition was written into WIA process. We ask that you please accept this finding as an administrative oversight.

The debarment form was given to each provider to be signed and returned and was written into the renewal processes for PY2009. Prior to being notified in 2008 that it was necessary to address debarment, debarment was addressed in Delaware Joblink as an online form which required a response in order to continue through the process to become a provider.

Anticipated Completion Date: Implemented in FY 2010.

Department of Labor
Reference number: 10-DOL-05
Programs: Work Investment Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Reporting

Condition:

Based on the review of the financial reports required to be submitted we noted the following issues:

- Two out of ten 9130 Reports were authorized but not properly reviewed. The two reports also did not break out all required elements on the report as required.

- Further, while another 9130 Report was properly authorized and reviewed by management, the report did not agree to supporting documentation including DFMS Support. The total variance was $322.

Criteria:

The Delaware Workforce Investment Act Program is required to file various reports related to its oversight and compliance over the federal funds it receives from the DOL.

ETA-9130, *Financial Report (OMB No. 1205-0461)* - All ETA grantees are required to submit quarterly financial reports for each grant award they receive. Reports are required to be prepared using the specific format and instructions for the applicable program(s); in this case, *Workforce Investment Act* instructions for the following: *Statewide Adult; Workforce Statewide Youth; Statewide Dislocated Worker; Local Adult; Local Youth; and Local Dislocated Worker.* A separate ETA 9130 is submitted for each of these categories. Reports are due 45 days after the end of the reporting quarter.

ETA-9091,*WIA Annual Report* (*OMB Number 1205-0420*) - Sanctions related to State performance or failure to submit these reports timely can result in a total grant reduction of not more than five percent as provided in WIA Section 136 (g)(1)(B).

ETA-9149, OMB Control Number 1205-0474 – A new supplemental reporting form separate from current data collection instruments is required. Report tracks youth served with Recovery Act Funds.

Cause:

Two of the ten 9130 Reports did not break out all required elements of the report and were also prepared and reviewed by the same individual. For a third 9130 Report, while it showed separate preparer and reviewer signatures, the data on the Report did not agree to supporting documentation as the reviewer did not agree report elements prior to sign-off.

Effect:

Controls are not adequate to ensure separate preparer and reviewers of Reports and to ensure that amounts recorded in financial reports were properly broken out, materially correct and properly supported.

Questioned Costs:

No questioned costs associated with this finding, as the $322 represents under reported costs.

Recommendation:

The program should consider adding an additional level of review to ensure reports are accurately prepared and reviewed by separate individuals and are properly presented and agree to supporting documentation.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

The Department agrees to add an additional level of review to ensure reports are accurately prepared.

Anticipated Completion Date: Completed.

Department of Labor
Reference number: 10-DOL-06
Programs: Work Investment Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Subrecipient Monitoring

Condition:

For 2 out of the 5 subrecipients selected for testing, no monitoring was performed by the WIA Program during the FY10. For the three remaining subrecipients, two of the checklists that are utilized to monitor financial status of subrecipients had not been reviewed by management. The subrecipients not monitored during the fiscal year had expenditures of $746,240.

Criteria:

Award Identification – At the time of the award, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements.

During-the-Award Monitoring – Monitoring the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Subrecipient Audits – (1) Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at http://www.whitehouse.gov/omb/circulars/a133/a133.html) and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Pass-Through Entity Impact – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Central Contractor Registration – Identifying to first-tier subrecipients the requirement to register in the Central Contractor Registration, including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, and maintain the currency of that information (Section 1512(h) of ARRA, and 2 CFR section 176.50(c)).

Cause:

The Program did not ensure that monitoring checklists were properly completed and reviewed by management. In addition, the Program did not have adequate controls in place to ensure it monitors

subrecipients in accordance with the criteria noted above or maintain proper documentation to support they effectively monitored subrecipients.

Effect:

The Program is not fulfilling its subrecipient monitoring responsibilities and subrecipients could not be meeting federal requirements.

Questioned Costs:

Questioned costs for subrecipients not monitored are unknown but could be no more than $746,240.

Recommendation:

The Department of Labor should adhere to established policies and procedures to ensure that monitoring checklists are appropriately being reviewed and should enhance procedures to ensure all subrecipients are being monitored as required.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

The Division of Employment and Training agrees to adhere to established policies and procedures to ensure that monitoring checklists are appropriately being reviewed.

The State of Delaware operates as both the state and the local program and, as such, we ensure the local area's compliance with DOL uniform administrative requirements. We also provide within each contract, the administrative and fiscal requirements as stated by the Workforce Investment Act. Each contractor submits monthly financial reports that are reviewed and compared to the approved budget within their contract. All records are to be maintained for at least 3 years for monitoring purposes.

The Division of Employment and Training does monitor sub-contractors based on the policy implemented within our division with the introduction of the Workforce Investment Act. This policy states that 25% of all WIA contracts must be monitored each program year. All new subcontractors must be reviewed and offered technical assistance in addition to the 25%. As a result, we do not plan to modify our policy.

Although each contractor is not monitored annually, they are rotated and all are monitored within a three year cycle. We have been monitored by both state and federal agencies throughout the last 10 years of this program and this policy has never been questioned or written up prior to this fiscal year.

While fiscal monitoring was not completed on all five subrecipients, program monitoring was conducted on 4 out of the 5 subrecipients. Program monitoring includes documentation reviews that ensure participant eligibility, and on-site visits to make sure subrecipients are in compliance with DOL/DET policy and

procedures. In addition to program monitoring, technical assistance is provided to subrecipients throughout the contract period.

The one exception to program monitoring was Advance Staffing. Since the Intensive Workshops were a new service being provided, DOL/DET decided subrecipients would be better serviced by providing constant technical assistance throughout the contract period. Technical assistance included a group orientation for all subrecipients providing the Intensive Workshops, a training session on how to determine eligibility, and on-site visits to make sure curriculums being used were appropriate.

Anticipated Completion Date:

We implemented the change to require the checklist be completed in FY 2010-11; no other changes were necessary to the program policy or procedures.

Department of Labor
Reference number: 10-DOL-07
Programs: Work Investment Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Cash Management

Condition:

For five of the cash receipt drawdowns tested totaling $7,468,781, two transactions did not agree to supporting documentation by a total of $10,879.

Criteria:

U. S. Department of the Treasury (Treasury) regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. No. 101-453; 31 USC 6501 *et seq.*), require State recipients to enter into agreements that prescribe specific methods of drawing down Federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions in which an interest liability would be incurred. Programs not covered by a Treasury-State Agreement are subject to procedures by prescribed in Treasury in Subpart B of 31 CFR part 205 (Subpart B).

KPMG notes WIA is required to be in compliance with Subpart B cash drawdown procedures. The timing of the cash drawdown should be within the proper period and should trace to supporting documentation. All CR's must be signed by an authorized signor and reviewer.

Cause:

There was a lack of reconciliation to document why CRs did not agree to supporting documentation.

Effect:

There is a lack of a formal reconciliation within the Program and the Program may be inappropriately reimbursed expenditures.

Questioned Costs:

There are no questioned costs related to this finding as the two cash drawdowns did not exceed supporting documentation.

Recommendation:

The WIA Program should implement a formal reconciliation to ensure the reviewer's approval that CRs agree to supporting documentation.

Views of Responsible Official:

Agency Contact Name: Kris Brooks

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

The DET agrees to implement a formal reconciliation process.

Anticipated Completion Date: August 31, 2011

Department of Labor
Reference number: 10-DOL-08
Programs: Work Investment Act Cluster (17.258, S-17.258, 17.259, S-17.259, 17.260, S-17.260)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Eligibility

Condition:

Per review of the WIA Program Employment Development Plans (EDP), KPMG noted the following:

- For one of the 65 EDPs reviewed, there was no evidence of proper review by management, which should be evidenced by a signature on the face of the documents.
- For ten of the 65 files selected, the EDPs did not have the eligibility checklists within them, which are used to indicate that the eligibility criteria have been met for the participant to receive services.
- Two of the 65 files requested for testing could not be located in timely manner.
- One file had a client coded as dislocated worker and only qualified as WIA Adult program.

Criteria:

Eligibility

1) Eligibility for Individuals

a) *All Programs*

Selective Service – No participant may be in violation of section 3 of the Military Selective Service Act (50 USC App. 453) by not presenting and submitting to registration under that Act (29 USC 2939(h)).

b) *All Subtitle B Statewide and Local Programs*

1) An adult must be 18 years of age or older.

2) A dislocated worker means an individual who meets the definition in 29 USC 2801(9).

3) A dislocated homemaker means an individual who meets the definition in 29 USC 2801(10).

4) Before receiving training services, an adult or dislocated worker must have received at least one intensive service, been determined to be unable to obtain or retain employment through intensive services, and met all of the following requirements (20 CFR sections 663.240 and 663.310):

   (a) Had an interview, evaluation, or assessment and determined to be in need of training services and have the skills and qualifications to successfully complete the selected training program.

   (b) Selected a training service linked to the employment opportunities.

   (c) Was unable to obtain grant assistance from other sources, including other Federal programs, to pay the costs of the training.

c) *Subtitle B Youth Activities*

   A person is eligible to receive services under Youth Activities if they are between the ages of 14 and 21 at the time of enrollment (20 CFR section 664.200) and demonstrate at least one of the following barriers to employment: deficient in basic literacy skills; a school dropout; homeless; a runaway; a foster child; pregnant or parenting; offender; or an individual who requires additional assistance to complete an educational program, or to secure and hold employment (20 CFR sections 664.200, .205, and .210).

WIA is required to determine eligibility for all participants based on the criteria above, in addition to correctly calculating the benefit to be paid to the participant and ensuring the benefit is discontinued with eligibility expires. Furthermore, an Employment Development Plan should be completed and reviewed for eligible participants.

Cause:

Controls are not operating effectively to ensure management is properly reviewing and maintaining client files.

Effect:

Claimants who were not eligible under WIA criteria may have inappropriately received benefits from the Program.

Questioned Costs:

Questioned costs are $512 for client coded as dislocated worker.

Recommendation:

The WIA Program should implement a tickler system control to ensure all client files (EDPs) are being reviewed and client files maintained.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

During a time of transition between a previous site manager and the new site manager at a youth provider site in Georgetown, an administrative oversight occurred. The Individual Service Strategy (ISS) for one client was not signed off on by the client or management. As a result of this finding, DOL was able to obtain the signature of the site manager however the site manager was unable to locate the youth to obtain his signature. ETO Policy 28 – Individual Service Strategy in the DOL/DET Contractor's Procedure Guide does address the requirement for both client and management signatures.

The eligibility checklist is used to document what supporting documentation has been used to determine eligibility. Eligibility documentation can be found in Tab 2 of the participant file. Eligibility checklists are not used to determine if eligibility criteria has been met. The participants in question are eligible and the files contain the documentation to support this.

The two files that could not be found have been located. Both participants were involved with the Advance Staffing – Intensive Service program. In the beginning of the program, it was decided that the contractor would determine eligibility and submit participant eligibility documentation to DOL/DET directly. Therefore, DOL/DET has in its possession the two participant files that include documentation to support participant eligibility.

Anticipated Completion Date: Completed. The policy to complete the checklist has been reinforced.

Department of Labor
Reference number: 10-DOL-09
Programs: Work Investment Act Cluster (S-17.258, S-17.259, S-17.260)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Reporting – Section 1512

Condition:

The DET did not submit the ARRA 1512 Report Approval Record to OMB for the reporting period ending March 31, 2010 as required by the Delaware OMB 1512 Reporting Instruction Manual. In addition, the DET's supporting documentation for the 1512 report did not have discernible evidence of management review and approval.

Further, DOL, Workforce Investment Act/Dislocated Worker's 1512 report contained the following errors in the subrecipient tab:

- Amount of Sub Award for two subrecipients were erroneously under-reported by a total of $80.

- Total Sub Award Funds Disbursed for two subrecipients were erroneously reported resulting in an understatement of expenditures of $30,250. Expenditures of $160,578 and $43,255 should have been reported as $180,578 and $53,505 respectively.

- In addition, one subrecipient with an award amount of $98,628 was completely omitted from the subrecipient tab.

Proper management review of the supporting documentation to the 1512 report may have caught these errors before it was submitted.

Criteria:

Section 1512 of the Recovery Act requires reporting on the use of Recovery Act funding by recipients no later that the 10th day after the end of each calendar quarter (beginning the quarter ending September 30, 2009). The Delaware OMB 1512 Reporting Instruction Manual also states, "Prime recipients and approved delegated subrecipients must also complete and have appropriate signed approval from the agency head for each report filed prior to uploading to the federal reporting system. A form for this purpose can be located at http://ww.omb.delaware.gov/arra/index.html and a copy is to be emailed to OMB_ARRA1512@state.de.us or faxed to (302)739-5661." Copies of the final spreadsheet uploaded to the federal reporting system, as well as the sign-off sheet are to be emailed to OMB_ARRA1512@state.de.us.

The Delaware OMB 1512 Reporting Instruction Manual also states "Prior to submission to the Federal website, the Primary Recipient is responsible for ensuring that no material errors or omissions exist. A material omission is defined as "instances where required data is not reported or reported information is not otherwise responsive to the data requests resulting in significant risk that the public is not fully informed as to the status of a Recovery Act project or activity."

A significant reporting error is defined as "instances where required data is not reported accurately and such erroneous reporting results in significant risk that the public will my misled or confused by the recipient report in question. "The Prime recipient must ensure that there are no material omissions or significant reporting errors in each quarterly report.

The Delaware OMB 1512 Reporting Instruction Manual states "Data quality (i.e. accuracy, completeness and timely reporting of information) reviews required by the OMB June 22 Guidance are intended to avoid two key data problems – material omissions and significant reporting errors. Prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted. Subrecipients delegated to report on behalf of prime recipients share in this responsibility. In light of these data quality responsibilities, recipients and subrecipients should establish internal controls to ensure completeness, accuracy, and timely reporting of all amounts funded by the Recovery Act."

In addition, the State of Delaware OMB/DOA ARRA of 2009 Internal Control Guideline dated November 24, 2009 states "Organizations must set up a process for review of data quality to ensure information submitted for reporting the use of ARRA funds is accurate and timely.

Cause:

DET was not aware of the requirement to send the ARRA 1512 Report Approval Record. There was also no procedure in place for adequate management review of the supporting documentation and 1512 report before it was submitted to federalreporting.gov.

Effect:

The purpose of the approval form is to ensure that there are no material omissions or significant reporting errors in the quarterly report. Failure to certify the accuracy of the report does not ensure the reported information is complete and accurate. Lack of management review and clear supporting documents may leave errors undiscovered.

On the subrecipient level, the March 31, 2010 1512 Report submitted by DOL, Division of Employment and Training contained significant reporting errors. Continued non-compliance with ARRA reporting requirements could result in termination of the award, reclaiming of funds, and potential punitive actions.

Questioned Costs:

There are no questioned costs for the subrecipient expenditures not reported on the Section 1512 Report.

Recommendation:

The DET should ensure the quality of the reported data by adequately reviewing the information before submitting it to the Federal government and certify the review by submitting the ARRA 1512 Report Approval Record. In addition, the DOL, Division of Employment and Training, should implement a management review process to ensure that the 1512 Report is free of errors before submission.

Views of Responsible Official:

Agency Contact Name: Kris Brooks

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

DET has implemented new 1512 procedures based on an audit recommendation by the AOA for the State of Delaware. We received these findings in October 2010. These procedures address submitting the ARRA 1512 report approval record and an additional level of approval for the ARRA 1512 reports.

Although the sub-recipient award was not included on the sub-recipient tab, the expenditures associated with the contract were reported in the accrual amount on the 1512 report. This finding has been corrected on subsequent 1512 reports.

Anticipated Completion Date: Completed.

Department of Labor
Reference number: 10-DOL-10
Programs: Unemployment Insurance (17.225, S-17.225)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Reporting

Condition:

One out of four ETA2208A, Quarterly UI Contingency Reports selected for testing did not agree to supporting documentation due to a transmission failure that occurred while uploading the reports into the Federal system. As Federal policy disallows reports to be re-transmitted, the data presented could not be corrected. The error resulted in an overstatement of expenditures by $14,000.

Criteria:

Non-Federal entities may be required to submit other reporting which may be used by the Federal Agency for such purposes as allocating program funding. Compliance testing of performance and special reporting are only required for data that are quantifiable and meet the following criteria":

a. Have a direct and material effect on the program.
b. Are capable of evaluation against objective criteria state in laws, regulations, contact or grant agreement pertaining to the program.

The Delaware Unemployment Insurance Program is required to submit one Special Report - the ETA 2208A, Quarterly UI Contingency Report, which is a quarterly report of staff years worked and paid by program category.

Financial reports should be reported in accordance with required accounting basis and trace to supporting documentation which trace and agree to DFMS. The reports are mathematically correct and all applicable accounts and elements are included within the report.

Cause:

The transmission error occurred while uploading the final copy onto the Federal system, and management did not detect it prior to submission.

Effect:

The ETA2208A Report was overstated by $14,000 resulting in the UI Program being funded $14,000 more than it should have been.

Questioned Costs:

Questioned costs per the Report that were overstated are $14,000.

Recommendation:

DOL should utilize control totals to validate that reporting uploads are accurately entered into the system.

Views of Responsible Officials:

Agency Contact Name: Kris Brooks

Agency Contact Phone Number: (302) 761-8024

Corrective Action Plan:

While the Division of Unemployment Insurance concurs with this audit finding, it is important to note there appears to have been a processing error for this report in the U.S. DOL-ETA automated reporting system. However, neither the Division nor the U.S. DOL-ETA is able to conclusively show that the $14,000 error was due to federal automated system error or by human error within the Division. Accordingly, the Division accepts this audit finding and will wait for instruction/direction from the U.S. DOL-ETA regarding any required, if any, corrective action.

Anticipated Completion Date: Immediately upon instructions from the U.S. DOL-ETA.

Department of Safety and Homeland Security
Delaware Emergency Management Agency
Reference number: 10-DSHS-01
Program: Homeland Security Grant Program (97.067)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Reporting

Condition:

In performing our testing of quarterly financial reports, we noted that DEMA incorrectly reported the following amounts in the SF-425 forms:

- $116,814 understatement in the unobligated balance of federal funds line for the period ended June 30, 2010

- $136,726 understatement in cash receipts for the period ended March 31, 2010

Criteria:

Delaware Emergency Management Agency (DEMA) is required to report actual expenditures on a quarterly basis on the Standard Form 425 (SF-425), Financial Status Report.

Cause:

Management oversight regarding the review of expenditures reported in quarterly SF-425 forms.

Effect:

DEMA did not accurately report the unobligated balance of federal funds amount in the SF-425 form to the Federal Emergency Management Agency for the period ended June 30, 2010, and did not accurately report the cash receipts amount in the SF-425 form to the Federal Emergency Management Agency for the period ended March 31, 2010.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that DEMA strengthen internal controls to ensure that the identification of errors in reporting information occurs prior to submission of the SF-425 Form to the Federal Emergency Management Agency. In addition, we recommend that DEMA submit revised SF-425 forms for the quarters ended March 31, 2010 and June 30, 2010 to correct the errors noted in each respective report.

Views of Responsible Officials:

Agency Contact Name: Bob Harrison, Fiscal Administrative Officer

Agency Contact Phone Number: (302) 659-2244

Corrective Action Plan: This was an oversight on the part of the DEMA Fiscal Officer. The error was corrected the following quarter. DEMA's Fiscal Officer will endeavor to be more vigilant to ensure all reports are prepared error free in the future.

Anticipated Completion Date: Completed

Department of Safety and Homeland Security
Delaware Emergency Management Agency
Reference number: 10-DSHS-02
Program: Homeland Security Grant Program (97.067)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Subrecipient Monitoring

Condition:

For one of two subrecipients selected for testwork, we noted that DEMA did not ensure that the subrecipient (City of Wilmington) properly reported the amounts received from DEMA in the SEFA included in their Single Audit Report. As part of our procedures, we reviewed the 2009 single audit report for the City of Wilmington, noting that the $501,741 passed through from DEMA to City of Wilmington in fiscal year 2009 was not included in their June 30, 2009 SEFA.

Criteria:

CFR 44 § 13.40, Monitoring and reporting program performance, states the following: Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity.

Per 31 USC. Sec. 7502, each pass through entity shall: (a) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter; (b) monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means; (c) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity; and (d) require each of its subrecipients of Federal awards to permit, as a condition of receiving Federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary for the pass-through entity to comply with this chapter.

Per OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*, Subpart C-Auditees§___.300 Auditee responsibilities, an auditee must: (a) Identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity.

Cause:

Management oversight regarding the review of subrecipient audit reports to ensure that subrecipients properly reported funds passed through by DEMA on their SEFA.

Effect:

Pass through funds, if improperly excluded from a subrecipient's SEFA, place the subrecpient in violation of the provisions of OMB Circular A-133 as noted above, and may result in the program not being audited at the subrecipient level.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

We recommend that DEMA strengthen internal controls regarding the subrecipient monitoring process (and related monitoring checklist) to ensure that subrecipients properly reported the amounts received from DEMA in the SEFA included in their Single Audit Report.

Views of Responsible Officials:

Agency Contact Name: Bob Harrison, Fiscal Administrative Officer

Agency Contact Phone Number: (302) 659-2244

Corrective Action Plan: The DEMA sub-Recipient Monitor Program will be updated to include provisions to notify subrecipients in the future when it is noted that any federal funds DEMA is responsible for are not included in their audit as required by OMB Circular A-133.

Anticipated Completion Date: Immediately.

Delaware National Guard
Reference number: 10-DNG-01
Federal Program: National Guard Military Operations and Maintenance (O&M) Projects (S-12.401)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Davis-Bacon Act

Condition:

During fiscal year 2010, $1,024,987 in federal funds were expended on two ARRA related construction projects for which the contractor did not contemporaneously submit certified payroll records to the State. Both of these projects were 100% federally funded.

Although the Delaware National Guard was aware that the federal prevailing wage rates applied and the contractors were so informed, the Delaware National Guard did not have policies and procedures in place to require submission of and monitor certified payrolls.

Criteria:

Non-Federal entities should include in their construction projects subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR sections 5.5 and 5.6). This reporting is often done using Optional Form WH-347, which includes the required statement of compliance (OMB No. 1215-0149).

Cause:

Under State law, State-funded construction projects follow a separate set of prevailing wage rate regulations. Under these regulations, contractors are not required to submit certified payrolls to the State of Delaware but must retain them on file for a period of three years. The State Department of Labor, Division of Labor Law Enforcement, is responsible for oversight of prevailing wage rates for State-funded construction projects, but does not have responsibility for federally funded projects. The Delaware National Guard was not aware that State Department of Labor, Division of Labor Law Enforcement, does not provide oversight over wage rates for federally funded projects.

Effect:

Differences between State and Federal requirements concerning prevailing wage rates have resulted in a lack of clarity concerning requirements and responsibilities related to federally funded or jointly funded construction projects. As a result, the oversight required by Davis-Bacon is not being performed by the State Department of Labor, Division of Labor Law Enforcement, or by the Delaware National Guard for projects related to the program.

Questioned Costs:

Questioned costs are not determinable, but could be no more than the total ARRA funds expended in fiscal year 2010 of $1,024,987 related to these two projects.

Recommendation:

Because the State Department of Labor, Division of Labor Law Enforcement does not have responsibility for oversight of federal construction projects, we recommend that the Delaware National Guard develop policies and procedures related to federally funded projects that include procedures and assignment of responsibility for monitoring Davis-Bacon Act submissions from contractors at the Department level.

Views of Responsible Officials:

Agency Contact Name: Art Caldwell

Agency Contact Phone Number: (302) 326-7160

Corrective Action Plan:

When necessary, the Delaware National Guard has been including language in its Federally funded contracts that contractors are responsible for complying with Davis-Bacon wage requirements, but has not been verifying contractor compliance on all of its contracts. This Department agrees that policies and procedures should be promulgated relative to mandatory Davis-Bacon requirements for Federal funded contracts.

Anticipated Completion Date: March 2011.

Delaware National Guard
Reference number: 10-DNG-02
Federal Program: National Guard Military Operations and Maintenance (O&M) Projects (12.401, S-12.401)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Equipment and Real Property Management

Condition:

Capital Outlays are reviewed and approved by authorized signors and correspondingly recorded to the Financial System (DFMS) report.

Two of the three capital outlays for fiscal year 2010 exceeding the $5,000 threshold, totaling $21,790, were not properly recorded on the listing of federal assets for the Delaware National Guard (DNG) as of June 30, 2010. DNG's policy is to record all federal fixed assets over the $5,000 threshold in the State's Fixed Asset Accounting System (FAAS).

Criteria:

Per the Master Cooperative Agreement – Section 606, National Guard Regulation 5-1 (April 2008), Chapter 7, Section 7-1 and 7-2, and 10 CFR Part 33 section 33, title to equipment acquired by a non-Federal entity with Federal awards vests with the non-Federal entity. Equipment means tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year and an acquisition cost of $5,000 or more per unit. However, consistent with a non-Federal entity's policy, lower limits may be established. A State shall use, manage, and dispose of equipment acquired under a Federal grant in accordance with State laws and procedures.

Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Cause:

DNG does not have a formal reconciliation process in place to ensure that all capital outlay for federal equipment exceeding the $5,000 threshold is appropriately recorded in their inventory of federal equipment (per FAAS), as required by the Master Cooperative Agreement, National Guard Regulation 5-1, and 10 CFR Part 33.

Effect:

Federally funded equipment purchases for the program may not be recorded on the State's asset listing in DFMS.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that DNG implement a formal reconciliation process to ensure that all capital outlays are appropriately reviewed and recorded.

Views of Responsible Officials:

Agency Contact Name: Art Caldwell

Agency Contact Phone Number: (302) 326-7160

Corrective Action Plan:

A formal reconciliation process to ensure that all Federal as well as State capital outlays are appropriately reviewed and recorded began during the quarter ended September 30, 2010.

Anticipated Completion Date: Completed in September 2010.

Delaware National Guard
Reference number: 10-DNG-03
Federal Program: National Guard Military Operations and Maintenance (O&M) Projects (12.401, S-12.401)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Procurement

Condition:

We noted that the Delaware National Guard did not have appropriate documentation in the project files for ARRA funded projects to demonstrate that the purchase of project materials were made in compliance with the Buy-American provisions. During fiscal year 2010, $1,906,005 in federal funds were expended on six ARRA related construction projects.

Criteria:

In addition to those statutes listed in the A-102 Common Rule and OMB Circular A-110, Section 1605 of ARRA prohibits the use of ARRA funds for a project for the construction, alteration, maintenance, or repair of a public building or work unless all of the iron, steel, and manufactured goods used in the project are produced in the United States. ARRA provides for waiver of these requirements under specified circumstances. An award term is required in all ARRA-funded awards for construction, alteration, maintenance, or repair of a public building or public work (2 CFR section 176.140).

Cause:

The Delaware National Guard was not aware of the Buy-American requirements for ARRA funded projects.

Effect:

Procurements may not be in compliance with the Buy-American provisions for ARRA funded projects.

Questioned Costs:

Questioned costs are not determinable, but could be no more than the total ARRA funds expended in fiscal year 2010 of $1,906,005.

Recommendation:

We recommend that the Delaware National Guard review its grant requirements to ensure compliance with grant agreements. We also recommend that Delaware National Guard maintain adequate documentation in its project files for ARRA funded projects to ensure compliance with all applicable ARRA requirements, including the provisions of Buy-American.

Views of Responsible Officials:

Agency Contact Name: Art Caldwell

Agency Contact Phone Number: (302) 326-7160

Corrective Action Plan:

The Delaware National Guard was aware of the Buy American requirements for ARRA funded projects, but did not verify contractor compliance with this requirement during FY 2010. To the best of our knowledge, this Department is not aware of any iron, steel, or manufactured goods used in its ARRA projects that were purchased from out-of-country sources. The Department's ARRA projects were all completed in June 2010, so adequate documentation by vendors and contractors of mandatory Buy-American provisions on any Federal funded projects will be maintained in the Department's Facilities Management Office beginning in July 2010. Since labor was a significant component in the Department's six ARRA energy enhancement projects, the Delaware National Guard does not agree that its non-compliance could have been as high as $1,906,005 – which represents 100% of FY 2010 ARRA expenditures.

Anticipated Completion Date: Immediately.

Delaware National Guard
Reference number: 10-DNG-04
Federal Program: National Guard Military Operations and Maintenance (O&M) Projects (12.401, S-12.401)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Reporting

Condition:

Based on our review of the reports submitted by the Delaware National Guard for the National Guard O&M Projects program, we noted the following variances in the non-federal share amounts:

Appropriation 1628 – ARRA Stimulus Funding
The cumulative non-federal share on the December 2009 report for this appropriation of $159,357 was understated by $3,850 from the amounts per DFMS. The federal share for this appropriation was correctly reported on the December 2009 report.

The non-federal share on the June 2010 report for this appropriation of $165,473.34 was understated by $128,666.66 from the amounts per DFMS. The federal share for this appropriation was correctly reported on the June 2010 report.

Appropriation 1001 – ROPM
The total program outlays to date on the June 2010 report for this appropriation of $2,053,705.38 were understated by $18,884.56, due to mathematical error where the sum of the non-federal share and federal share lines did not equal the total program outlays to date reported. Both the federal and non-federal share for this appropriation were correctly reported on the June 2010 report.

Criteria:

Per National Guard Regulation 5-1 (April 2008), Chapter 10, Section 10-5, the Delaware National Guard is required to report actual expenditures, requested for reimbursement, on the Standard Form 270 (SF-270), Financial Status Report, and to submit these reports with supporting documentation of the amounts expended.

Cause:

DNG did not provide proper oversight during the review process for SF-270 reports to ensure that all amounts reported appropriately reconciled to supporting DFMS reports.

Effect:

Non federal share amounts, as included in SF-270 reports, did not agree to the amounts supported by DFMS reports.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that DNG reinforce policies and procedures regarding the review of financial reports to ensure that all amounts included in the financial reports (including non-federal share amounts) properly reconcile to supporting DFMS reports prior to submission to the federal government.

Views of Responsible Official:

Agency Contact Name: Art Caldwell

Agency Contact Phone Number: (302) 326-7160

Corrective Action Plan:

Beginning in March 2011, the DNG State Comptroller will confirm that all non-federal as well as federal amounts listed in the monthly SF-270 Reports prepared by the DNG Budget Analyst properly reconcile to supporting First State Financial (FSF) reports prior to submittal to the federal government.

Anticipated Completion Date: March 2011

Delaware National Guard
Reference number: 10-DNG-05
Federal Program: National Guard Military Operations and Maintenance (O&M) Projects (S-12.401)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Reporting (ARRA 1512)

Condition:

Based on our review of the March 31, 2010 reports submitted by the Delaware National Guard for the National Guard O&M Projects program, we noted the following variances:

The "Total Federal Amount of ARRA Expenditure" amount reported of $1,925,379.45 was overstated by $16,183.13 from the total expenditures per supporting DFMS reports. The expenditure amount included in the 1512 report included April expenditures through the date of report was prepared and submitted, instead of through the date of the report (March 31, 2010).

The "Total Amount of Payments to Vendors less than $25,000/award" amount reported of $206,588.58 was understated by $7,802.99 from the amounts supported by DFMS.

Criteria:

Section 1512 of ARRA includes reporting requirements applicable to recipients of awards. This section requires the Delaware National Guard to report actual expenditure information and other data elements for ARRA projects on a quarterly basis.

Cause:

State OMB directives resulted in DNG resubmitting the March 31, 2010 report with incorrect information, as noted above. We noted that the original DNG submitted report properly reconciled to DFMS.

Effect:

Amounts reported in the Section 1512 reports were misstated.

Questioned Costs:

Questioned costs are $16,183.13, the amount that should not have been included in "total federal amount of ARRA expenditure" in the March 31, 2010 report.

Recommendation:

We recommend that DNG reinforce policies and procedures regarding the review of ARRA 1512 reports to ensure that all amounts included in the reports properly reconcile to supporting DFMS reports prior to submission to the federal government.

Views of Responsible Officials:

Agency Contact Name: Art Caldwell

Agency Contact Phone Number: (302) 326-7160

Corrective Action Plan:

All ARRA expenditures and reimbursements authorized the Delaware National Guard were completed in June 2010, which was the last month covered by this A-133 Audit. If the Department's Facilities Management Office has a need to prepare and file ARRA or similar reports in the future, the DNG State Comptroller's Office will conduct an internal audit of each Report for accuracy and completeness prior to submittal to the federal government.

Anticipated Completion Date: Immediately, as applicable.

Department of Natural Resources and Environmental Control
Reference number: 10-DNR-01
Program: State Energy Program (81.041, S-81.041)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Cash Management

Condition:

We noted, that for one of the seven advances tested, requested on June 25, 2010 for $10,110,000, the advance request was not timed to minimize the time between transfer of funds from the federal government and expenditure of funds for the program. These amounts were passed through to the Sustainable Energy Utility, a blended component unit of the State, for use in paying rebates for programs. Per discussion with DNREC program personnel, the amount requested was in anticipation of the implementation of the State First State Financials (FSF) system, and in anticipation that there would be significant participation in the rebate programs for which the SEU uses program funds. However, the program overestimated the funds needed for program expenses; nearly the entire $10.1M remains in an interest bearing account as of the end of December. We noted that this advance payment to a blended component unit did not conform to the timing requirements that apply to the pass through entity (as noted above). We further note that this instance of noncompliance is driven by the lack of an internal control to ensure that advance amounts requested adhere to the terms of the grant agreement and 10 CFR 600, § 600.221 prior to the submission of the advance request within ASAP.

We did note, however, that the Program is in compliance with the treatment of interest earned on the advance amount.

Criteria:

Per terms of the grant agreement:

Requests for advances must be made through the ASAP system. You may submit requests as frequently as required to meet your needs to disburse funds for the Federal share of project costs. If feasible, you should time each request so that you receive payment on the same day that you disburse funds for direct project costs and the proportionate share of any allowable indirect costs. If same-day transfers are not feasible, advance payments must be as close as is administratively feasible to actual disbursements.

…If you earn program income during the project period as a result of this award, you may add the program income to the funds committed to the award and use it to further eligible project objectives.

Per 10 CFR 600, § 600.221 Payment (this CFR is referenced as applicable guidance in the grant agreement):

(a) *Scope.* This section prescribes the basic standard and the methods under which a Federal agency will make payments to grantees, and grantees will make payments to subgrantees and contractors.

(b) *Basic standard.* Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205.

(c) *Advances.* Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee.

(i) *Interest earned on advances.* Unless there are statutory provisions to the contrary, grantees and subgrantees shall promptly, but at least quarterly, remit to the Federal agency interest earned on advances. The grantee or subgrantee may keep interest amounts up to $100 per year for administrative expenses.

Cause:

The State Energy Program did not have established internal control policies and procedures in place to ensure that amounts requested through the ASAP system were properly supported prior to the request for funding being submitted. In addition, the Program did not time advance requests, and review the use of the advanced funds, to ensure that the use of funds adhered to the terms of the grant agreement and 10 CFR 600, § 600.221.

Effect:
Without a management review control in place, DNREC may request funds in a manner which is not in compliance with terms of the grant agreement.

Questioned Costs:

Questioned costs for this finding are $10,100,000, the total amount of the advance not requested in accordance with terms of the grant agreement and 10 CFR 600, § 600.221.

Recommendation:

We recommend that the State Energy Program develop internal control policies and procedures regarding ASAP funding requests, that require a management review and approval process over requested amounts prior to the submission of the funding request within ASAP. In addition, we recommend that management review the use of advance funds passed through to component units and subrecipients to ensure that the use of funds adheres to the terms of the grant agreement and 10 CFR 600, § 600.221.

Views of Responsible Officials:

Agency Contact Name: Rebecca Zink, DNREC Fiscal Administrative Officer

Agency Contact Phone Number: (302)739-9903

Corrective Action Plan:

The Department does have established internal control policies and procedures in place. The Department has both a Purchasing and Signature policy for establishing internal controls of documents. In order for funds to be drawn from ASAP each request corresponds to a voucher, which is paying from an encumbrance or established Purchase Order following the State and Department Procurement Policy

adhered to 10 CFR 600.236. Grant draws are taken from ASAP weekly on documents that have processed the previous week.

The Department did review the use of the advanced funds by the subrecipient, to ensure that the use of funds adhered to the terms of the grant agreement. Within the Special Terms and Conditions for the grant agreement it refers to the SEP Narrative Information Worksheet/State Plan. This plan included four activities that were approved July 1, 2009, the State Title of Buildings/Technical Assistance defines a budget of $12 million which operates as a revolving loan program and allows residents to benefit for years to come. Revolving Loan Funds (RLF) and loan loss reserves may be drawn down in advance to capitalize the RLF at the time the fund is obligated and are not subject to the requirement that they must be disbursed within three days which is referenced from 31 CFR 205.15 and 10 CFR 205.25. Interest earned from the time that revolving loan funds are advanced to the time loans are made are contractually committed to support specific loans or portfolios of loans must be treated as program income and rolled back into the fund or another approved, eligible activity. However, if a grantee chooses not to roll interest earned back into the revolving loan fund or use it for another approved eligible activity, they must return it to the Federal Government 31 CFR 205.15, 205.25, 10CFR 420.18(d). DNREC has currently reached out to our project manager with Department of Energy and to Division of Accounting Staff for further guidance and is awaiting response.

Anticipated Completion Date:

The Department is currently working on the financial and programmatic reconciliation between component units and subrecipients. The financial reconciliation is between DNREC, The Sustainable Energy Group, Belfint Lyons & Shuman and Applied Energy Group. We are looking to have both above items completed and rectified by April 30, 2011.

Auditors' Response:

The $10,100,000 drawdown was not for allowable incurred costs as of June 30, 2010 (the end of the audit period). Also see finding 10-DNR-03.

Department of Natural Resources and Environmental Control
Reference number: 10-DNR-02
Program: State Energy Program (81.041, S-81.041)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Subrecipient Monitoring

Condition:

In our testing of the one subrecipient for the Program subject to subrecipient monitoring provisions in FY2010, Applied Energy Group (AEG), we noted that the Program does not have established monitoring procedures in place or controls in place to ensure compliance with general requirements as detailed in OMB Circular A-133 Compliance Supplement, Part 3, Section M) or program specific compliance requirements, as detailed in the grant agreement and 10 CFR 600.

Specifically we noted the following:

- There are no established subrecipient monitoring policies and procedures or internal controls (to ensure compliance with these requirements) in place for the Program.
- DNREC does not have a monitoring process in place to ensure that subrecipients used Federal awards for authorized purposes, complied with laws, regulations, and the provisions of contracts and grant agreements.
- DNREC does not have during the award monitoring procedures in place over subrecipients to ensure that corrective action on deficiencies is completed.
- DNREC does not perform monitoring of the procurement process utilized by subrecipients to ensure compliance with State and/or federal guidelines for procurement. The same is true to verification that parties contracted with are not on the EPLS listing.
- DNREC has no monitoring process in place to ensure that:
  - the required A-133 audits are completed for subrecipients,
  - the A-133 reports are received and reviewed by DNREC for all subrecipients,
  - appropriate follow up on corrective action for findings is completed.

In addition, we noted that the Sustainable Energy Utility (SEU), is a blended component unit of the State. As a result, the Program improperly classified the SEU as a subrecipient in error. An entity cannot be a subrecipient of itself.

Criteria:

A pass-through entity is responsible for (1) ensuring that subrecipients expending $500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133… and that the required audits are completed within nine months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within six months after the receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions (OMB Circular A-133 Compliance Supplement, Part 3, Section M).

A pass-through entity is responsible for evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations (OMB Circular A-133 Compliance Supplement, Part 3, Section M).

Per 10 CFR 600 and the terms of the grant agreement require the pass through entity to ensure that subrecipients comply with all applicable procurement, suspension and debarment requirements (including ARRA Buy American provisions) and comply with the provisions of Davis-Bacon.

Cause:

DNREC improperly classified the AEG as a vendor for program administration purposes for most areas (the only place the entity was properly classified as a subrecipient was on ARRA 1512 reports).

Effect:

Management's classification of AEG as a vendor resulted in a lack of subrecipient monitoring performed for the entity to ensure compliance with all applicable requirements noted above.

Questioned Costs:

Questioned costs as of June 30, 2010 are $649,349, the amount passed through to AEG.

Recommendation:

We recommend that the State Energy Program develop internal control policies and procedures regarding monitoring of subrecipients, to ensure that all required monitoring activities are being performed to ensure subrecipient compliance with applicable federal requirements.

Views of Responsible Officials:

Agency Contact Name: Rebecca Zink, DNREC Fiscal Administrative Officer

Agency Contact Phone Number: (302) 739-9903

Corrective Action Plan:

DNREC has the SEU as the subrecipient of the SEP ARRA grant currently. A Memorandum of Understanding (MOU) has been executed between DNREC, the SEU, AEG and Belfint Lyons & Shuman (Fiscal Agent). Majority of the programs identified in the Department of Energy grant application are to be carried out or directed by the SEU. All flow down requirements are detailed within the MOU. As a result of this finding we are currently working with the Division of Accounting and The Department of Energy to see exactly how the SEU best fits within this grant.

Anticipated Completion Date:

In August 2010, the Delaware Energy Office (DEO) monitored AEG who is the contract administrator for the Sustainable Energy Utility (SEU). AEG is responsible for implementing and overseeing the programs funded through the SEU. Programmatic monitoring visits have and will take place semiannually.

Department of Natural Resources and Environmental Control
Reference number: 10-DNR-03
Program: State Energy Program (S-81.041)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Reporting (ARRA 1512)

Condition:

The DNREC, State Energy Office's (SEO), supporting documents for the §1512 Report did not have evidence of management review and approval. Although the Prime Recipient amounts were reported correctly, the subrecipient amounts contained errors as described below. Proper management review of the supporting documentation to the §1512 Report may have discovered these errors before it was submitted. The DNREC, State Energy Office's §1512 Report contained errors in the sub-recipient tab for *Amount of Sub Award* and for *Total Sub Award Funds Disbursed*. The sub award amount reported was $608,195.85 instead of the actual amount of $870,000. Funds disbursed were reported to be $309,787.91 instead of $608,195.85, resulting in an understatement of expenditures of $298,407.94. The SEO could not determine the origin of the $309,787.91. Proper management review of the supporting documentation to the §1512 Report may have discovered these errors before it was submitted.

We further noted that the detail tab of sub award funds disbursed summed to $308,787.91, a $1,000 variance from the $309,787.91 reported on the sub award summary tab.

In addition, we noted that the June 30, 2010 ARRA 1512 report reported total federal amount of ARRA expenditures of $10,908,752.96. Of this total, $10,110,000 represents funds moved from DNREC to the SEU. Because both DNREC and the SEU are both a part of the entity of the State of Delaware, the $10.1M was not expended in the fiscal year. As a result, the total federal amount of ARRA expenditure on the June 30, 2010 report is overstated by $10.1M. Because the SEU is a blended component unit of the State of Delaware, the SEU is inappropriately classified as a subrecipient in the ARRA 1512 reports filed for the program.

Criteria:

Federal OMB M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009 (*June 22, 2009), provides guidance covering the reporting requirements of Section 1512 of ARRA and includes two supplements: (1) a list of programs subject to the ARRA reporting requirements, and (2) a Recipient Reporting Data Model. M-09-21 provides extensive guidance for recipients and Federal agencies. The federal guidance in this document has been incorporated into the *Delaware OMB §1512 Reporting Instruction Manual.*

The *Delaware OMB §1512 Reporting Instruction Manual* states: "Prior to submission to the Federal website, the Primary Recipient is responsible for ensuring that no material errors or omissions exist. A material omission is defined as instances where required data is not reported or reported information is not otherwise responsive to the data requests resulting in significant risk that the public is not fully informed as to the status of a Recovery Act project or activity. A significant reporting error is defined as instances where required data is not reported accurately and such erroneous reporting results in significant risk that

the public will be misled or confused by the recipient report in question. **The Prime Recipient must ensure that there are no material omissions or significant reporting errors in each quarterly report.**"

The *Delaware OMB §1512 Reporting Instruction Manual* also states "Data quality (i.e., accuracy, completeness and timely reporting of information) reviews required by the OMB June 22, 2010 Guidance are intended to avoid two key data problems -- material omissions and significant reporting errors. Prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted. Sub-recipients delegated to report on behalf of prime recipients share in this responsibility. In light of these data quality responsibilities, recipients and sub-recipients should establish internal controls to ensure completeness, accuracy and timely reporting of all amounts funded by the Recovery Act."

In addition, the State of Delaware OMB/DOA ARRA of 2009 Internal Controls Guideline dated November 24, 2009, states, "Organizations must set up a process for review of data quality to ensure information submitted for reporting the use of ARRA funds is accurate and timely."

Cause:

Totals were not entered into the correct cells on the §1512 Report due to confusion on the part of DNREC, State Energy Office personnel. In addition, there was no procedure in place for adequate management review of the supporting documentation and §1512 Report before it was submitted to FederalReporting.gov.

Effect:

Failure to certify the accuracy of the report does not ensure the reported information is complete and accurate and may leave errors undiscovered.

The March 31, 2010 and June 30, 2010, §1512 Reports submitted by the DNREC, State Energy Office contained significant reporting errors. Continued non-compliance with ARRA reporting requirements could result in termination of the award, reclaiming of funds, and potential punitive actions.

Questioned Costs:

Questioned costs are $10,110,000, the amount included in the total federal amount of ARRA expenditures that was not expended during the fiscal year.

Recommendation:

The DNREC, State Energy Office should ensure the quality of the reported data by adequately reviewing the information before submitting it to the federal government.

The DNREC, State Energy Office should retain all documentation (DFMS reports, tracking spreadsheets, etc.) to support the information reported on the §1512 Report and implement a management review process to ensure that the §1512 Report is free of errors before submission.

Views of Responsible Officials:

Agency Contact Name: Rebecca Zink, DNREC Fiscal Administrative Officer

Agency Contact Phone Number: (302) 739-9903

Corrective Action Plan:

The Department has modified its procedures in regards to Section 1512 Reports. Beginning with the July, 2010 Section 1512 report, the Director of Energy and Climate verifies and approves the data that is submitted to Federalreporting.gov.

Anticipated Completion Date: July 2010

Department of Natural Resources and Environmental Control
Reference number: 10-DNR-04
Program: State Energy Program (81.041, S-81.041)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Allowable Costs (Effort Reporting)

Condition:

The DNREC, State Energy Office did not require time and effort reporting certifications for federally funded programs as required in OMB Circular A-87. The State Energy Office used a pre-determined distribution percentage of 75% for the payroll of two employees to be charged to the State Energy Program. The State of Delaware Office of Auditor of Accounts (AOA) tested a total of $14,490 in payroll transactions, of which $10,865 (75%) was charged to the program without time and effort certifications. However, total payroll charged to this ARRA program since its inception on February 17, 2009, through March 31, 2010, is $74,378.20. None of these expenditures are properly supported by time and effort reports.

Criteria:

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee; (b) they must account for the total activity for which each employee is compensated; (c) they must be prepared at least monthly and must coincide with one or more pay periods, and (d) they must be signed by the employee. (OMB Circular A-87, Attachment B.8.h.4)

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes, provided that: (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed; (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B.8.h.5)

Cause:

The DNREC, State Energy Office personnel were unaware of the time and effort reporting requirement.

Effect:

Salary and related costs allocated to the State Energy Program are not appropriately supported by time and effort reports and are not in compliance with OMB Circular A-87.

Questioned Costs:

Questioned costs are not determinable, but could be no more than $223,260.66, the total amount of salary and other employment costs charged to the program.

Recommendation:

The DNREC, State Energy Office should complete and retain time and effort reporting certifications as required by Federal OMB.

Views of Responsible Officials:

Agency Contact Name: Rebecca Zink, DNREC Fiscal Administrative Officer

Agency Contact Phone Number: (302) 739-9903

Corrective Action Plan:

The State Energy Coordinator has arranged with the DNREC Information Technology group for DNREC DEO to be included in the Department's Time-Keeping System (TKS). This will allow for automated time and effort reporting for the Delaware Energy Office staff. This program allows DNREC DEO to appropriately allocate salary and related costs to the State Energy Program and will enable compliance with OMB Circular A-87. From August 2010 forward employees have certified time using an after-the-fact prototype sent to us by the Office of the Auditor of Accounts. The same document, with slight alterations, is used for current time periods until the TKS is installed in DNREC DEO and training occurs.

Anticipated Completion Date: August 2010.

Department of Natural Resources and Environmental Control
Reference number: 10-DNR-05
Program: State Energy Program (81.041, S-81.041)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Reporting (Quarterly Reports to DOE)

Condition:

In performing our testing of the December 31, 2009 and June 30, 2010 quarterly performance reports to the Department of Energy, we noted the following variances in the reports for Grant Number DE-EE0000343 where amounts reported as *SEP grant outlays by source: Federal* did not agree to supporting DFMS reports:

Report	Per DFMS	Per Performance Report	Variance
December 31, 2009	$ 35,341.71	$ 61,366.00	$ 26,024.29
June 30, 2010	28,387.78	1,342,218.86	1,313,831.08

Criteria:

The State Energy Office is required to report program expenditures in performance reports to the US Department of Energy on a quarterly basis.

Cause:

Management oversight regarding the review of information reported in quarterly performance reports submitted to DOE. Federal outlay lines in submitted reports also included non-federal expenditures.

Effect:

The amounts reported in the December 31, 2009 and June 30, 2010 quarterly performance reports did not agree to supporting DFMS reports.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that the DNREC State Energy Office strengthen internal controls to ensure that all appropriate information is reported in quarterly performance reports, and that all amounts reported appropriately reconcile to supporting DFMS reports prior to submission to DOE.

Views of Responsible Officials:

Agency Contact Name: Rebecca Zink, DNREC Fiscal Administrative Officer

Agency Contact Phone Number: (302) 739-9903

Corrective Action Plan:

The Department has implemented procedures in regards of Section 1512 and Federal Reports. As stated above the Director of Energy and Climate will verify the data that is submitted to the Department of Energy. All reports submitted to USDOE have been reviewed and approved by the State Energy Program Project Officer, Jose Benitez. Report discrepancies can occur if expenditures have been made and federal funds have not been drawn through the ASAP system. The Department has acknowledged this difference and beginning with the July, 2010 Section 1512 report made sure to allow time for the drawdowns to process to reflex correct figures in both Section 1512 and Federal Reports.

Anticipated Completion Date: July 2010.

Department of Natural Resources and Environmental Control
Reference number: 10-DNR-06
Program: Capitalization Grants for Clean Water State Revolving Funds (S-66.458)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Reporting (ARRA 1512)

Condition:

In testing the quarterly ARRA 1512 report for the quarter ended March 31, 2010, the Department incorrectly reported two subaward amounts, as well as the number of payments to vendors less than $25,000/award, as noted below:

Subaward amounts were transposed for two Sussex County subawards:

- Subaward number 12000035 was reported as $640,000. Amount should have been reported as $5,461,503.
- Subaward number 12000036 was reported as $5,641,503. Amount should have been reported as $640,000.

Seven payments to vendors less than $25,000/award totaling $25,572.50 were reported in the Department's 1512 report. Per supporting DFMS records, there were five payments to vendors that make up the $25,572.50. Only the number of payments was incorrectly reported; the dollar amount reported was properly supported by DFMS.

Criteria:

Section 1512 of the Recovery Act requires reporting on the use of Recovery Act funding by recipients no later that the 10^{th} day after the end of each calendar quarter (beginning the quarter ending September 30, 2009). Aimed at providing transparency into the use of these funds, the recipient reports are required to include the following detailed information:

- Total amount of funds received; and of that the amount spent on projects and activities;
- A list of those projects and activities funded by name to include:
  - Description
  - Completion status
  - Estimates on jobs created or retained;
- Details on sub-awards and other payments.

Cause:

Management oversight in the review process for ARRA 1512 reports.

Effect:

Without an effective management review control in place to ensure the accuracy of data elements included in the reports prior to submission, the Department may report inaccurate information in quarterly ARRA 1512 reports.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that the Department enhance existing internal control policies and procedures regarding review of ARRA 1512 reports, that require a management review and approval process over the content of the reports to ensure the accuracy of data elements reported prior to the submission.

Views of Responsible Officials:

Agency Contact Name: Terry Deputy

Agency Contact Phone Number: (302) 739-9941

Corrective Action Plan:

The Department has in place controls to help ensure correct quarterly ARRA 1512 reports are generated and reported. However, the Department will immediately enhance its review process for quarterly ARRA 1512 reports by creating a spreadsheet to ensure that loan accounts and disbursement balances are correct. The spreadsheet and draft quarterly 1512 reports will be reviewed by the FAB Administrator prior to submitting the final quarterly ARRA 1512 reports.

Anticipated Completion Date: Immediately.

Department of Natural Resources and Environmental Control
Reference number: 10-DNR-07
Program: Capitalization Grants for Clean Water State Revolving Funds (66.458, S-66.458)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Subrecipient Monitoring, Davis-Bacon Act

Condition:

We noted that the Program only completes financial subrecipient monitoring (including review of A-133 reports) for entities that have disbursed greater than $500,000 in the prior year. There is no dollar threshold for the requirements of subrecipient monitoring per A-133; the Program misunderstood the $500,000 threshold (which is the threshold of expenditures for an entity to be subject to a single audit) to be the threshold for which a subrecipient had to spend from them to be required to be reviewed. As a result, any entity that did not disburse greater than $500,000 in FY2009 was not monitored in FY2010.

In testing our sample of five program subrecipients, we noted that two subrecipient A-133 reports were obtained and reviewed in FY2010, Sussex County and Town of Millsboro. However, we noted that the schedule of expenditures of federal awards for each entity did not appropriately identify the correct amount of pass-through amounts from the Department of Natural Resources and Environmental Control (DNREC). DNREC's review process did not identify these issues and did not include follow up on these discrepancies.

Criteria:

A pass-through entity is responsible for (1) ensuring that subrecipients expending $500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133…and that the required audits are completed within nine months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions. (OMB Circular A-133 Compliance Supplement, Part 3, Section M).

A pass-through entity is responsible for evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations. (OMB Circular A-133 Compliance Supplement, Part 3, Section M).

Per the grant agreements for the Program:

The recipient agrees to:

a. Establish all subaward agreements in writing;
b. Maintain primary responsibility for ensuring successful completion of the EPA-approved project (this responsibility cannot be delegated or transferred to a subrecipient);
c. Ensure that any subawards comply with the standards in Section 210(a)-(d) of OMB Circular A-133 and are not used to acquire commercial goods or services for the recipient;

d. Ensure that any subawards are awarded to eligible subrecipients and that proposed subaward costs are necessary, reasonable, and allocable;
e. Ensure that any subawards to 501 (c)(4) organizations do not involve lobbying activities;
f. Monitor the performance of their recipients and ensure that they comply with all applicable regulations, statutes, and terms and conditions which flow down in the subaward;
g. Obtain EPA's consent before making a subaward to a foreign or international organization, or a subaward to be performed in a foreign country; and
h. Obtain approval from EPA for any new subaward work that is not outlined in the approved work plan in with 40 CFR Parts 30.25 and 31.30, as applicable.

Cause:

Management was unaware that there is no dollar threshold for subrecipient monitoring, and that monitoring must be completed for all pass-through funds.

Effect:

Subrecipients may not be in compliance with the above noted requirements.

Questioned Costs:

Questioned costs are not determinable.

Recommendation:

We recommend that the Department adhere to its internal control policies and procedures regarding subrecipient monitoring, to ensure that all required subrecipient monitoring activities are completed for program subrecipients. In addition, we recommend that the Department enhance its A-133 report review process for subrecipients to ensure that all issues are identified and documented on the review forms, including documentation of the follow up procedures completed by DNREC to resolve any issues noted in the review process.

Views of Responsible Official:

Agency Contact Name: Terry Deputy

Agency Contact Phone Number: (302) 739-9941

Corrective Action Plan:

The Department will ensure that its internal control policies and procedures regarding Subrecipient monitoring are followed and implemented as follows.

1. All required subrecipient monitoring activities will be completed for program subrecipients.

2. The A-133 report review process for subrecipients will be enhanced to identify and document issues and concerns on review forms, including any necessary follow-up procedures to be completed by the Department to resolve issues documented in the review process.

Anticipated Completion Date: Immediately.

Department of Natural Resources and Environmental Control
Reference number: 10-DNR-08
Program: State Energy Program (81.041, S-81.041)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Reporting

Condition:

In performing our testing of the June 30, 2010 quarterly SF-425 reports to the Department of Energy, we noted that the report for federal grant number DE-EE0000342 (State SAI number S9031803) included total cash disbursements (line b) and total federal share of expenditures (line e) of $10,908,752.96. We noted that $10,110,000 of these reported amounts relate to funds moved from DNREC to the SEU. Because both DNREC and the SEU are both a part of the entity of the State of Delaware, the $10.1M was not expended in the fiscal year. As a result, total cash disbursements (line b) and total federal share of expenditures (line e) are both overstated by $10,110,000.

Criteria:

The State Energy Office is required to report program expenditures in federal financial reports, Form SF-425, to the US Department of Energy on a quarterly basis.

Cause:

Management oversight regarding the review of information reported in quarterly performance reports submitted to DOE, and the misclassification of the SEU as a subrecipient.

Effect:

The amounts reported in the June 30, 2010 SF-425 report for federal grant number DE-EE0000342 (State SAI number S9031803) are overstated.

Questioned Costs:

Questioned costs are $10,110,000, the amount included in the total cash disbursements and total federal share of expenditure lines that was not expended during fiscal year 2010.

Recommendation:

We recommend that the DNREC State Energy Office strengthen internal controls to ensure that all appropriate information is reported in quarterly SF-425 reports, and that all amounts reported appropriately reconcile to actual expenditures prior to submission to DOE.

Views of Responsible Officials:

Agency Contact Name: Rebecca Zink, DNREC Fiscal Administrative Officer

Agency Contact Phone Number: (302) 739-9903

Corrective Action Plan:

The Department has implemented procedures in regards of Section 1512 and Federal Reports. As stated above the Director of Clean Energy and Climate Policy who serves as the State Energy Coordinator will verify the data that is submitted to the Department of Energy. All reports submitted to USDOE have been reviewed and approved by the State Energy Program Project Officer, Jose Benitez. The Department along with Division of Accounting and Department of Energy are currently working on the finding in regards to SEU being a blended component and not a subrecipient. DNREC has reached out to The Department of Energy and is awaiting a response, we are planning to have a response and collaborate with Division of Accounting by April 30th, 2011.

Anticipated Completion Date: April 30, 2011

Department of Agriculture
Reference number: 10-AGR-01
Program: Farm and Ranch Lands Protection Program (10.913)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Cash Management

Condition:

In performing our testing of the SF-270 reports filed in fiscal year 2010, we noted that, although the Program had the following information in their records and projects files, the following information was not included in, or attached to, the SF-270 reporting package submitted to the federal government:

SF 270 Reporting Packages related to Cooperative Agreement 73.21J2.7.13
The reporting package did not include the following required information:
(4) landowner name;
(5) landowner's tax identification number (TIN) or social security number;
(8) acres acquired;
(10) Federal Information Processing Standards (FIPS) number for the State of Delaware or the Foundation;
(11) Bank routing number and account number for desired deposit location;
(12) Copy of OGC approved conservation easement deed;
(13) Current appraisal conducted in accordance with NRCS policies and procedures, UASFLA and USPAP standards;
(14) NRCS CPA-230, Confirmation of Matching Funds; and
(15) The amount paid for the ALTA US title insurance policy (09/28/91) for each easement and
(16) Copy of the ALTA US title insurance policy (09/28/91) for each easement.

SF 270 Reporting Packages related to Cooperative Agreement 73.21J2.9.13
The reporting package did not include the following required information:
(4) landowner name;
(5) landowner's tax identification number (TIN) or social security number;
(8) acres acquired for each conservation easement;
(10) Federal Information Processing Standards (FIPS) number for the State of Delaware or the Foundation;
(11) Bank routing number and account number for desired deposit location;
(12) Copy of recorded Conservation Easement Deed(s) for each easement;
(13) NRCS CPA-230, Confirmation of Matching Funds; and
(14) Copy of the ALTA US title insurance policy (09/28/91) for each easement.

Criteria:

Per terms of Cooperative Agreement 73.21J2.7.13, dated June 25, 2007, *V. Payments*:

At a minimum, the following information shall be included in, or attached to, the SF-270:
(1) the name of the State of Delaware or the Foundation;
(2) this cooperative agreement number;
(3) conservation easement number;

(4) landowner name;
(5) landowner's tax identification number (TIN) or social security number;
(6) total amount of dollars paid to the landowner for the conservation easement, specifying the CCC share and the non-CCC share of the conservation easement cost;
(7) term the conservation easement;
(8) acres acquired;
(9) Tax Identification number for the State of Delaware or the Foundation;
(10) Federal Information Processing Standards (FIPS) number for the State of Delaware or the Foundation;
(11) Bank routing number and account number for desired deposit location; and
(12) Copy of OGC approved conservation easement deed;
(13) Current appraisal conducted in accordance with NRCS policies and procedures, UASFLA and USPAP standards;
(14) NRCS CPA-230, Confirmation of Matching Funds; and
(15) The amount paid for the ALTA US title insurance policy (09/28/91) for each easement and
(16) Copy of the ALTA US title insurance policy (09/28/91) for each easement.

Per terms of Cooperative Agreement 73.21J2.9.13, dated July 24, 2009, *VII. Payments*:

At a minimum, the following information shall be included in, or attached to, the SF-270, prior to Natural Resources Conservation Service (NRCS) accepting the conservation easement and disbursing payment:
(1) the name of the Foundation;
(2) this cooperative agreement number;
(3) conservation easement numbers (if applicable);
(4) landowner name;
(5) landowner's tax identification number (TIN) or social security number;
(6) total amount of dollars paid to the landowner for the conservation easement, specifying the CCC share and the non-CCC share of the conservation easement cost;
(7) term the conservation easement;
(8) acres acquired for each conservation easement;
(9) Tax Identification number (TIN) for the Foundation;
(10) Federal Information Processing Standards (FIPS) number for the State of Delaware or the Foundation;
(11) Bank routing number and account number for desired deposit location; and
(12) Copy of recorded Conservation Easement Deed(s) for each easement;
(13) NRCS CPA-230, Confirmation of Matching Funds; and
(14) Copy of the ALTA US title insurance policy (09/28/91) for each easement.

Cause:

Management oversight regarding the review of information reported in, or attached to, SF-270 forms.

Effect:

The Delaware Department of Agriculture (DDA) did not comply with the terms of their cooperative agreements regarding information required to be submitted in, or attached to, SF-270 forms.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that DDA strengthen internal controls to ensure that all appropriate information is reported in, or attached to, SF-270 forms in accordance with Cooperative Agreement terms.

Views of Responsible Officials:

Agency Contact Name: Michael McGrath

Agency Contact Phone Number: (302) 698-4500

Corrective Action Plan: Checklists of all documents and information to be included in SF-270 Reporting Packages related to Cooperative Agreements 73.21J2.7.13 and 73.21J2.9.13 have been prepared and will be used to ensure that all of the necessary materials excluded from previous Reporting Packages will be included in future Reporting Packages.

Anticipated Completion Date:

This will be implemented with the next quarterly report for the months of January 2011 – March 2011.

Department of Agriculture
Reference Number: 10-AGR-02
Program: Farm and Ranch Lands Protection Program (10.913)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Reporting

Condition:

In performing our testwork of eight quarterly financial reports (two for each quarter in fiscal year 2010, one for each Cooperative Agreement), we noted that DDA incorrectly reported several key elements in the SF-425 forms submitted during fiscal year 2010, including cash disbursements, cash on hand, total federal funds authorized, unobligated balance of federal funds, total recipient share required, recipient share of expenditures, and remaining recipient share to be provided. As a result, the SF-425 reports did not properly reconcile to supporting DFMS reports and grant agreements.

The table below details the exceptions noted in our testing of SF-425 reports:

Quarter End Date of Report (Appropriation #)	Line Item	Amount Reported on submitted SF-425	Amount that should have been reported	Variance - (Under)/Over reported
September 30, 2009 (1507)	b. Cash Disbursements	-	3,150,115.33	(3,150,115.33)
	c. Cash on Hand	-	(3,150,115.33)	3,150,115.33
	d. Total Federal funds authorized	95,161,006.66	9,374,036.33	85,786,970.33
	h. Unobligated balance of Federal funds	92,010,891.33	6,223,921.00	85,786,970.33
				-
September 30, 2009 (1509)	i. Total recipient share required	-	1,850,370.91	(1,850,370.91)
	k. Remaining Recipient share to be provided	-	1,850,370.91	(1,850,370.91)
				-
December 31, 2009 (1507)	a. Cash Receipts	-	3,150,115.33	(3,150,115.33)
	b. Cash Disbursements	-	3,392,986.99	(3,392,986.99)
	c. Cash on Hand	-	(242,871.66)	242,871.66
	i. Total recipient share required	-	9,374,036.33	(9,374,036.33)

	j. Recipient share of expenditures	-	3,392,986.99	(3,392,986.99)
	k. Remaining Recipient share to be provided	-	5,981,049.34	(5,981,049.34)
				-
December 31, 2009 (1509)	b. Cash Disbursements	-	5,504,742.02	(5,504,742.02)
	c. Cash on Hand	-	(5,504,742.02)	5,504,742.02
	i. Total recipient share required	-	1,850,370.91	(1,850,370.91)
	j. Recipient share of expenditures	-	1,850,370.91	(1,850,370.91)
				-
March 31, 2010 (1507)	i. Total recipient share required	-	9,374,036.33	(9,374,036.33)
	j. Recipient share of expenditures	-	3,392,986.99	(3,392,986.99)
	k. Remaining Recipient share to be provided	-	5,981,049.34	(5,981,049.34)
				-
March 31, 2010 (1509)	j. Recipient share of expenditures	-	1,850,370.91	(1,850,370.91)
				-
June 30, 2010 (1507)	i. Total recipient share required	-	9,374,036.33	(9,374,036.33)
	j. Recipient share of expenditures	-	3,392,986.99	(3,392,986.99)
	k. Remaining Recipient share to be provided	-	5,981,049.34	(5,981,049.34)
				-

Criteria:

Delaware Department of Agriculture (DDA) is required to report actual expenditures on a quarterly basis on the Standard Form (SF-425), Financial Status Report.

Cause:

Management oversight regarding the review of expenditures reported in SF-425 forms.

Effect:

DDA did not accurately report several amounts (as detailed above) in the SF-425 forms for each quarter to the US Department of Agriculture for the periods ended September 30, 2009, December 31, 2009, March 31, 2010, and June 30, 2010.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that DDA strengthen internal controls to ensure that the identification of errors in reporting information occurs prior to submission of the SF-425 Form to the US Department of Agriculture. In addition, we recommend that DDA submit revised SF-425 forms for the quarters ended September 30, 2009, December 31, 2009, March 31, 2010, and June 30, 2010 to correct the errors noted in each respective report.

Views of Responsible Officials:

Agency Contact Name: Michael McGrath

Agency Contact Phone Number: (302) 698-4500

Corrective Action Plan: Revised SF-425 Forms for the Quarters referenced above have been submitted. Errors on these forms were made due to the preparer’s lack of familiarity with SF-425. The preparer now has a better understanding of SF-425 and has contacted the USDA for additional instructions which have now been received. With the preparer’s increased experience and the instructions from the USDA to guide her, we expect that all future SF-425 Forms will be prepared and submitted correctly.

Anticipated Completion Date: Immediately.

Department of Agriculture
Reference Number: 10-AGR-03
Program: Farm and Ranch Lands Protection Program (10.913)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Special Tests and Provisions (Property Monitoring Site Visits)

Condition:

For nine of 15 properties tested, we noted that the Department of Agriculture did not perform annual property monitoring site visits for the respective properties during fiscal year 2010. We did note, however, that management did perform these site visits in the summer of 2010 when they identified that the required site visits had not been completed in accordance with terms of the grant agreement.

Criteria:

Per terms of Cooperative Agreement, the Department of Agriculture is required to submit annual monitoring reports on the status of each easement to NRCS.

Cause:

Management oversight and a lack of controls in place to identify properties that are due for annual property monitoring site visits.

Effect:

The Delaware Department of Agriculture (DDA) did not comply with the terms of their cooperative agreements regarding property monitoring site visits.

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

We recommend that DDA strengthen internal controls to ensure that all property monitoring site visits are completed annually and submitted to NRCS in accordance with Cooperative Agreement terms.

Views of Responsible Officials:

Agency Contact Name: Michael McGrath

Agency Contact Phone Number: (302) 698-4500

Corrective Action Plan: A new workflow policy has been implemented to insure that all Federal properties are monitored and reported on every eleven months, and that non-Federal properties are monitored and reported on every twenty-three months. This workflow includes Management frequently examining the

work of those entrusted with monitoring and reporting on these properties to make sure the workflow does not fall behind schedule.

Anticipated Completion Date: Immediately.

Delaware Department of Transportation
Reference number: 10-DOT-01
Program: Highway Planning & Construction Cluster (20.205, S-20.205, 20.219)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Subrecipient Monitoring

Condition:

DelDOT personnel were not aware that the Highway Planning and Construction Program had subrecipients but still had controls in place to monitor their one Subrecipient, City of Rehoboth. However, they were only requiring them to have a pre-award and post award audits therefore not meeting the federal regulation that all subrecipients expending more than $500,000 of federal funds during the fiscal year must have a single audit performed within 9 months of the subrecipient's year-end.

Criteria:

When a subrecipient is given award money from the pass through entity, the pass through entity must ensure that they have properly identified to the subrecipeient the terms of the award, that they must comply with federal requierments, ensure they are effectively monitoring the subrecipient, and that the subrecipient is conducting an audit every year if expending more than $500,000 of federal funds.

A Pass Through Entity is responsible for:

Subrecipient Audits – (1) Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at http://www.whitehouse.gov/omb/circulars/a133/a133.html) and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Cause:

DelDOT personnel were not aware that that Highway Planning & Construction Program had subrecipients and therefore were not requiring their one subrecipient to have an audit performed during the year for expending more than $500,000 of federal funds as is required by federal regulations.

Effect:

A subrecipient receiving federal money may not be meeting federal requirements during the year that could be discovered during the subrecipient audit.

Questioned Costs:

The Department incurred $4,812,238.72 in project costs for the subrecipient, City of Rehoboth, where all required monitoring was not completed.

Recommendation:

We recommend that DelDOT put procedures in place to ensure that subrecipients conduct single audits every year that they expend more than $500,000 in federal funds, and that DelDOT has controls in place to ensure that the Department effectively monitors these audits and any findings that arise from the audits, when applicable.

Views of Responsible Officials:

Agency Contact Name: Bill Newnom

Agency Contact Phone Number: (302) 760-2053

Corrective Action Plan:

DelDOT personnel were aware that the City of Rehoboth was a sub-recipient, and the 1512 reports are filed showing the City of Rehoboth as a sub-recipient for the Boardwalk project. DelDOT management made the City of Rehoboth Beach aware that they were a subrecipient through contract verbiage and email communications. The City has had the required annual single audits performed by a CPA firm, and the single audit data was submitted to the Federal Audit Clearinghouse by the City of Rehoboth Beach (the latest submission occurred on January 4, 2011 for fiscal year ending March 31, 2010) . The Boardwalk project is audited annually with interim quarterly reports submitted by DelDOT to FHWA, as are all ARRA projects. Our internal audit group attended project pre-bid meetings, preconstruction meetings, physically walked the project limits and conducted numerous site visits to insure requirements were met. They also conducted labor interviews contractor employees to insure compliance with Davis-Bacon wage rates as well as to document construction activities and progress.

A recent FHWA review of DelDOT's ARRA projects resulted in the following observation: "During the course of the FHWA NRTeam ELG/billing review of ARRA projects in Delaware, December 06-10, 2010, the following successful practices were observed: (1) The DelDOT Audit Division has committed its entire staff to review 100% of the ARRA projects in Delaware each quarter. This dedication of critical audit resources in providing additional oversight for ARRA projects should go far toward enhancing the overall integrity of the ARRA program in Delaware. (2) The DelDOT Finance Division performs monthly reconciliations at the program fund code level of the federal-aid obligations/expenditures in the State DOT's accounting system (FACTS) with the obligations/expenditures in the FHWA FMIS system. This is a valuable internal control, providing assurance to both DelDOT and FHWA that the obligations/expenditures in the State's accounting system and the FHWA FMIS system are in agreement".

Anticipated Completion Date: Completed in 2010.

Auditors' Response:

Monitoring noted above was not completed until after our audit procedures were completed.

Delaware Department of Transportation/Delaware Transit Corporation
Reference number: 10-DOT-02
Program: Federal Transit Cluster (20.500, S-20.500, 20.507, S-20.507)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Subrecipient Monitoring

Condition:

DelDOT/DTC personnel were not aware that the Federal Transit Cluster Program had subrecipients but still had controls in place to effective monitor their one Subrecipient, National Railroad Passenger Company. However, they were only requiring them to have a pre-award and post award audits therefore not meeting the federal regulation that all subrecipients expending more than $500,000 of federal funds during the fiscal year must have an audit performed within 9 months of the subrecipient's year-end.

Criteria:

When a subrecipient is given award money from the pass through entity, the pass through entity must ensure that they have properly identified to the subrecipeient the terms of the award, that they must comply with federal requierments, ensure they are effectively monitoring the subrecipient, and that the subrecipient is conducting an audit every year if expending more than $500,000 of funds.

A Pass Through Entity is responsible for:

Subrecipient Audits – (1) Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 (the circular is available on the Internet at http://www.whitehouse.gov/omb/circulars/a133/a133.html) and that the required audits are completed within 9 months of the end of the subrecipient's audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Cause:
DelDOT/DTC personnel were not aware that that Federal Transit Cluster Program had subrecipients and therefore were not requiring their one subrecipient to have an audit performed during the year for expending more than $500,000 of federal funds as is required by federal regulations.

Effect:

A subrecipient receiving federal money may not be meeting federal requirements during the year that could be discovered during the subrecipient audit.

Questioned Costs:

The program incurred $2,658,675.18 in program costs for which all subrecipient monitoring was not completed.

Recommendation:

We recommend that DelDOT/DTC put procedures in place to ensure that its subrecipients expending more than $500,000 in federal funds in any fiscal year are conducting audits that year and that DelDOT/DTC have controls in place to ensure that they effectively monitor these audits and any findings that arise from the audits, when applicable.

Views of Responsible Officials:

Agency Contact Name: Bill Newnom

Agency Contact Phone Number: (302) 760-2053

Corrective Action Plan:

DelDOT agrees with this finding. While the Department closely monitors subrecipient's activities and ensures that Single Audits are performed and filed with the appropriate Federal agencies. The Department's Internal Audit section is heavily involved with monitoring all subrecipients, from pre-award audits, concurrent expenditure reviews, quarterly Federal reports (for ARRA projects) to post audits. In this particular case, however, Amtrak, due to the fact that they own the station and are their own vendor, were classified as a vendor and as such limited our monitoring to payments made to them. In response to the finding above, the Department has recently amended our Audit Policy Implement Number A-08 to add a section on subrecipient monitoring.

Anticipated Completion Date: March 2011.

Delaware Department of Transportation/Delaware Transit Corporation
Reference number: 10-DOT-03
Program: Federal Transit Cluster (S-20.500, S-20.507)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Special Tests – Separate Accountability for ARRA Funding

Condition:

We noted that there is no control in place that ensures the system is configured in such a way to denote what is an ARRA expenditure under the Federal Transit Cluster. Earl Timpson, Assistant Director, notes that while the system (BACIS, FACTS) will show some expenditures as being ARRA, there is no consistency as to when an ARRA project is denoted as ARRA or not.

Criteria:

When a recipient receives ARRA funding, the Federal Agency must require recipients to agree to maintain records that identify adequately the source and application of ARRA awards. As such, recipients such as DelDOT/DTC who received ARRA funding for the Federal Transit Cluster Program for the FY10, should have a control in place to ensure they are identifying adequately the source and application of ARRA awards.

Depending on the type of organization undergoing audit, the administrative requirements that apply to most programs arise from two sources:

- A-102 Common Rule
- OMB Circular A-110

There are also some other administrative compliance requirements contained in regulations that are not of the type covered in the A-102 Common Rule or OMB Circular A-110, that are unique to specific programs. Federal programs excluded from the A-102 Common Rule are listed in Appendix I of the Supplement.

The financial management system must permit the preparation of required reports and tracing of funds adequate to establish that funds were used for authorized purposes and allowable costs. Reporting requirements are contained in the criteria discussed above, and may also be contained in applicable legislation, Federal awarding agency and program regulations, and award terms and conditions.

As provided in 2 CFR section 176.210, Federal agencies must require recipients to (1) agree to maintain records that identify adequately the source and application of ARRA awards; (2) separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the Federal award number, CFDA number, and the amount of ARRA funds; and (3) provide identification of ARRA awards in their Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form (SF-SAC) and require their subrecipients to provide similar identification in their SEFA and SF-SAC. Additional information, including presentation requirements for the SEFA and SF-SAC, is provided in Appendix VII.

Cause:

DelDOT/DTC did not have any controls in place to ensure the system (BACIS, FACTS) denotes what an ARRA expenditure is versus non-ARRA Expenditure. As such, there is no consistency when looking up ARRA related projects and expenditures as to if the system will indicate if it is ARRA related or not.

Effect:

The Federal Transit Cluster could be incorrectly recording total ARRA expenditures on their SEFA and other related required reports.

Questioned Costs:

Not applicable as finding relates to program administration and reporting.

Recommendation:

We recommend that DelDOT/DTC be more consist and put controls in place for separate accountability of ARRA funding such as populating a grant number in FACTS at the project level that would be used only for ARRA expenditures.

Views of Responsible Officials:

Agency Contact Name: Bill Newnom

Agency Contact Phone Number: (302) 760-2053

Corrective Action Plan:

We believe that DelDOT did have adequate controls in place to ensure the system denoted ARRA expenditures versus non-ARRA expenditures. All FHWA ARRA projects were given specific special Federal Apportionment Codes that were entered into the BACIS accounting system and FMIS Federal tracking system. BACIS system reports showed these Federal apportionment codes and the indicator "ORRA" or "ERRA" in the vendor title when reports were run in BACIS. Unlike the FHWA, the FTA did not allocate ARRA funds with separate apportionment codes. They did, however, require that all ARRA funds be applied to separate grants. As soon as DelDOT identified the grant applicable to specific ARRA allocations, separate projects were established for the individual grants and were tracked in BACIS and FACTS accordingly. DelDOT applied only ARRA funds on the identified specific grant/project. As an added control, the Division of Finance established an internal ARRA coordinator to monitor all FTA allotments and expenditures to ensure that all ARRA funds were allotted to the specifically identified grant.

In addition the FHWA National Review Team (NRT) reviewed DelDOT's processes regarding ARRA projects; the following observation was noted within the close-out report from this audit:
"During the course of the FHWA NRTeam ELG/billing review of ARRA projects in Delaware, December 06-10, 2010, the following successful practices were observed: (1) The DelDOT Audit Division has committed its entire staff to review 100% of the ARRA projects in Delaware each quarter. This dedication of critical audit resources in providing additional oversight for ARRA projects should go far toward

enhancing the overall integrity of the ARRA program in Delaware. (2) The DelDOT Finance Division performs monthly reconciliations at the program fund code level of the federal-aid obligations/expenditures in the State DOT's accounting system (FACTS) with the obligations/expenditures in the FHWA FMIS system. This is a valuable internal control, providing assurance to both DelDOT and FHWA that the obligations/expenditures in the State's accounting system and the FHWA FMIS system are in agreement".

Anticipated Completion Date: Completed.

Auditors' Response:

Based on errors noted in 1512 reporting (findings 10-DOT-04 and 10-DOT-05),the system was not adequate.

Delaware Department of Transportation
Reference number: 10-DOT-04
Program: Highway Planning & Construction Cluster (S-20.205)
Type of Finding: Material Noncompliance, Material Weakness
Compliance Requirement: Reporting (Section 1512)

Condition:

DelDOT personnel were not aware that expenditures related to specific vendors/contractors incurred during the year should have been reported on the Section 1512 Reports. As such, 7 out of the 8 Highway Planning & Construction Program Section 1512 Reports we tested for the Quarter ending March 31, 2010 did not correctly agree to the system data expenditure listing as of 3/31/10 but was understated by $398,063.

Criteria:

Section 1512 of the Recovery Act requires reporting on the use of Recovery Act fuding by recipients no later than the 10th day after the end of each calandar quarter. The Section 1512 Reports must contain specific data elements which must agree to records and data reports and be presented in accordance with ARRA Section 1512 reporting requirements.

Per the Implementation Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009, attachment to M-09-21 memorandum, the following was noted:

<u>Section 2.1</u> Section 1512 of the Recovery Act requires reports on the use of Recovery Act funding by recipients no later than the 10th day after the end of each calendar quarter (beginning the quarter ending September 30, 2009) and for the Federal agency providing those funds to make the reports publicly available no later than the 30th day after the end of that quarter. Aimed at providing transparency into the use of these funds, the recipient reports are required to include the following detailed information:

- Total amount of funds received; and of that, the amount spent on projects and activities;
- A list of those projects and activities funded by name to include:
  - Description
  - Completion status
  - Estimates on jobs created or retained;
- Details on sub-awards and other payments.

<u>Section 4.2</u> defines a Prime Recipient's responsibilities as:

- Owns recipient data and sub-recipient data
- Initiates appropriate data collection and reporting procedures to ensure that Section 1512 --reporting requirements are met in a timely and effective manner
- Implements internal control measures as appropriate to ensure accurate and complete information
- Performs data quality reviews for material omissions and/or significant reporting errors, making appropriate and timely corrections to prime recipient data and working with the designated sub-recipient to address any data quality issues"

Section 4.4 additionally notes Recipients and sub-recipients reporting Section 1512 data into the www.FederalReporting.gov solution must initiate a review of the data both prior to, and following, the formal submission of data. The post-submission review period runs from the 11th day of the reporting month to the 21st day of the reporting month for prime recipients. During this post-submission review period, significant reporting errors or material omissions that are discovered can be corrected using the www.FederalReporting.gov solution. Specific instructions for submitting new or corrected data will be provided on the www.FederalReporting.gov website. The prime recipients are responsible for reviewing data submitted by sub-recipients. Where a recipient identifies a data quality issue with respect to information submitted by the sub-recipient, the recipient is required to alert the relevant sub-recipient of the nature of the problem identified by the recipient. All corrections by recipients and sub-recipients during this phase of the review must be transmitted by the 21st day of the reporting month.

Cause:

DelDOT personnel were not aware that expenditures related to specific vendors/contractors incurred during the year should have been reported on the Section 1512 Reports. This is a result of the lack of a clear reconcilation of the ARRA Reports to to the BACIS ledger.

Effect:

The Section 1512 Reports are not correctly reporting the total ARRA expenditures for each quarterly report.

Questioned Costs:

The expenditures reported were allowable per program requirements but were understated in the 1512 report by $398,063.

Recommendation:

We recommend that that DelDOT create controls to ensure that Section 1512 Reports are including all expenditures to date and agree to system detail.

Views of Responsible Officials:

Agency Contact Name: Bill Newnom

Agency Contact Phone Number: (302) 760-2053

Corrective Action Plan:

As with many new programs, there was some confusion as to reporting requirements regarding materials, etc.; however, when mistakes were discovered we immediately took steps to correct the reported amounts. DelDOT's financial system can track ARRA funds in a manner adequate to establish that funds were used for authorized purposes. We have improved our tracking of expenditures to correctly attribute project expenditures when multiple federal sponsoring agencies are involved. We are taking steps to ensure that all future 1512 reports are correct.

Anticipated Completion Date: March 2011.

Delaware Department of Transportation/Delaware Transit Corporation
Reference number: 10-DOT-05
Program: Federal Transit Cluster (S-20.500, S-20.507)
Type of Finding: Noncompliance, Significant Deficiency
Compliance Requirement: Reporting (Section 1512)

Condition:

DelDOT personnel were not aware that some expenditures incurred during the year should have been reported on the Section 1512 Reports. As such, the Federal Transit Cluster Section 1512 Report we were required to test for the Quarter ending March 31, 2010 did not correctly agree to the system data expenditure listing as of 3/31/10 but was understated by $401,208.

Criteria:

Section 1512 of the Recovery Act requires reporting on the use of Recovery Act fuding by recipients no later than the 10th day after the end of each calandar quarter. The Section 1512 Reports must contain specific data elements which must agree to records and data reports and be presented in accordance with ARRA Section 1512 reporting requirements.

Per the Implementation Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009, attachment to M-09-21 memorandum, the following was noted:

<u>Section 2.1</u> Section 1512 of the Recovery Act requires reports on the use of Recovery Act funding by recipients no later than the 10th day after the end of each calendar quarter (beginning the quarter ending September 30, 2009) and for the Federal agency providing those funds to make the reports publicly available no later than the 30th day after the end of that quarter. Aimed at providing transparency into the use of these funds, the recipient reports are required to include the following detailed information:

- Total amount of funds received; and of that, the amount spent on projects and activities;
- A list of those projects and activities funded by name to include:
  - Description
  - Completion status
  - Estimates on jobs created or retained;
- Details on sub-awards4 and other payments.

<u>Section 4.2</u> defines a Prime Recipient's responsibilities as:

- Owns recipient data and sub-recipient data
- Initiates appropriate data collection and reporting procedures to ensure that Section 1512 --reporting requirements are met in a timely and effective manner
- Implements internal control measures as appropriate to ensure accurate and complete information
- Performs data quality reviews for material omissions and/or significant reporting errors, making appropriate and timely corrections to prime recipient data and working with the designated sub-recipient to address any data quality issues"

Section 4.4 additionally notes Recipients and sub-recipients reporting Section 1512 data into the www.FederalReporting.gov solution must initiate a review of the data both prior to, and following, the formal submission of data. The post-submission review period runs from the 11th day of the reporting month to the 21st day of the reporting month for prime recipients. During this post-submission review period, significant reporting errors or material omissions that are discovered can be corrected using the www.FederalReporting.gov solution. Specific instructions for submitting new or corrected data will be provided on the www.FederalReporting.gov website. The prime recipients are responsible for reviewing data submitted by sub-recipients. Where a recipient identifies a data quality issue with respect to information submitted by the sub-recipient, the recipient is required to alert the relevant sub-recipient of the nature of the problem identified by the recipient. All corrections by recipients and sub-recipients during this phase of the review must be transmitted by the 21st day of the reporting month.

Cause:

DelDOT personnel were not aware that some expenditures incurred during the year should have been reported on the Section 1512 Reports. This is a result of the lack of a clear reconcilation of the ARRA Reports to to the BACIS ledger.

Effect:

The Section 1512 Reports are not correctly reporting the total ARRA expenditures for each report.

Questioned Costs:

The expenditures reported were allowable per program requirements, but were understated in the 1512 Report by $401,208.

Recommendation:

We recommend that that DelDOT/DTC create controls to ensure that Section 1512 Reports are including all expenditures to date and agree to system detail.

Views of Responsible Officials:

Agency Contact Name: Bill Newnom

Agency Contact Phone Number: (302) 760-2053

Corrective Action Plan:

As with many new programs, there was some difficulty in the early implementation of ARRA reporting, which required quick development and implementation of an expenditure tracking system to meet Federal requirements, while receiving changing reporting requirements from the federal government. In this particular case there was a lack of internal communication regarding two projects that were funded through ARRA. When the errors were discovered, steps were taken to immediately correct the reported amounts. DelDOT's financial system can track ARRA funds in a manner adequate to establish that funds were used for authorized purposes. We are taking steps to ensure that all future 1512 reports are correct.

Anticipated Completion Date: March 2011.

Office of Management and Budget
Reference number: 10-OMB-01
Programs: All
Type of Finding: Significant Deficiency
Compliance Requirement: Suspension and Debarment

Condition:

The State has implemented a "boiler-plate" contract which states that they (the vendor) are neither suspended nor debarred from Federal procurement and non-procurement transactions. Management reviews vendor authorizations to the above. However, for 9 of 10 contracts selected, there was no evidence that management reviewed vendors from being suspended or debarred, as the contracts reviewed were operating under amended contracts and original contract did not include the suspension or debarment language.

Criteria:

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. "Covered transactions" include those procurement contracts for goods and services awarded under a non procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the EPLS maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Cause:

Contract amendments standard language has not been updated to include suspension and debarment language for modification to contracts prior to FY09 or to contract extensions.

Effect:

The vendor could potentially be suspended or debarred from the State vendor list at the time of the amendment.

Questioned Costs:

There are no questioned costs associated with this finding as the vendors selected were not on the EPLS listing.

Recommendation:

We recommend that all new contracts and amendments include the new suspended and debarred language consistent with the State's "boiler-plate" contract language stating that the vendor is neither suspended nor debarred from Federal procurement and non-procurement transactions.

Views of Responsible Official:

Agency Contact Name: W. Peter Teague, Contract Procurement Administrator

Agency Contact Phone Number: (302) 857-4552

Corrective Action Plan:

Government Support Services (GSS) will revise its Boilerplate Documents, Policy & Procedure, and related Contract Officer Checklists to include review of vendor suspension and debarment.

Anticipated Completion Date: March 31, 2011.

MATRIX OF FINDINGS BY FEDERAL AGENCY

Matrix of Findings by Federal Agency

Finding Prefix	USDA 10	DOD 12	DOL 17	DOT 20	EPA 66	DOE 81	ED 84	HHS 93	DHS 97	ALL
10-DTC-01							X			
10-DTC-02							X			
10-ED-01							X			
10-ED-02							X			
10-ED-03							X			
10-ED-04							X			
10-ED-05							X			
10-ED-06							X			
10-ED-07							X			
10-ED-08							X			
10-ED-09							X			
10-ED-10							X			
10-ED-11	X									
10-ED-12	X									
10-ED-13							X			
10-ED-14							X			
10-DHSS-01	X							X		
10-DHSS-02								X		
10-DSS-01								X		
10-DSS-02								X		
10-DSS-03								X		
10-DSS-04								X		
10-CSE-01								X		
10-CSE-02								X		
10-CSE-03								X		
10-CSE-04								X		
10-CSE-05								X		
10-DPH-01	X				X			X		
10-DPH-02	X									
10-DPH-03					X					
10-DPH-04								X		
10-DPH-05	X									
10-DPH-06								X		

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Matrix of Findings by Federal Agency

Year ended June 30, 2010

Finding	**USDA**	**DOD**	**DOL**	**DOT**	**EPA**	**DOE**	**ED**	**HHS**	**DHS**	**ALL**
Prefix	**10**	**12**	**17**	**20**	**66**	**81**	**84**	**93**	**97**	
10-DPH-07								X		
10-DPH-08								X		
10-DPH-09								X		
10-SSC-01								X		
10-SSC-02								X		
10-SSC-03						X				
10-SSC-04						X				
10-SSC-05						X				
10-SSC-06						X				
10-SSC-07						X				
10-SSC-08						X				
10-DOL-01							X			
10-DOL-02							X			
10-DOL-03			X							
10-DOL-04			X							
10-DOL-05			X							
10-DOL-06			X							
10-DOL-07			X							
10-DOL-08			X							
10-DOL-09			X							
10-DOL-10			X							
10-DSHS-01									X	
10-DSHS-02									X	
10-DNG-01		X								
10-DNG-02		X								
10-DNG-03		X								
10-DNG-04		X								
10-DNG-05		X								
10-DNR-01						X				
10-DNR-02						X				
10-DNR-03						X				
10-DNR-04						X				
10-DNR-05						X				
10-DNR-06					X					

STATE OF DELAWARE

Schedule of Findings and Questioned Costs

Matrix of Findings by Federal Agency

Year ended June 30, 2010

Finding	USDA	DOD	DOL	DOT	EPA	DOE	ED	HHS	DHS	ALL
Prefix	**10**	**12**	**17**	**20**	**66**	**81**	**84**	**93**	**97**	
10-DNR-07					X					
10-DNR-08						X				
10-AGR-01	X									
10-AGR-02	X									
10-AGR-03	X									
10-DOT-01				X						
10-DOT-02				X						
10-DOT-03				X						
10-DOT-04				X						
10-DOT-05				X						
10-OMB-01										X

STATE OF DELAWARE

Summary Status of Prior Year Findings

Year ended June 30, 2010

STATE OF DELAWARE
Summary Status of Prior Year Findings
June 30, 2010

Agency	Department of Health and Social Services: Division of Public Health
Finding Number	08-DPH-02
Related Prior Year Findings	06-DPH-14, 07-DPH-04
Current Year Finding	None
Program Name (CFDA No.)	Centers for Disease Control and Prevention, Investigations, and Technical Assistance (93.283)
Condition	Public Health Preparedness Section (PHPS) has not maintained records of federally funded equipment or tracked it according to OMB Circular A-110, Subpart C. In addition, the physical inventory of equipment taken in fiscal year 2008 has not been reconciled to the general ledger.
Recommendation	We recommend that the CDC Program maintain accounting records and track equipment in accordance with Circular A-110. We also recommend that CDC ensure periodic physical inventories are taken and reconciled at least once every two years.
Agency Contact Name	Joe Hughes; Changed to Iwana Smith-Moore as of October 25, 2010
Agency Contact Phone Number	(302) 223-1720
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The Office of Preparedness warehouse staff completes an annual physical inventory, with the last one being completed in 2010. All inventory records have been entered into the Preparedness Inventory tracking system (IRMS) which is maintained, reconciled and updated by Preparedness warehouse staff when new items are received or in-stock items are distributed. Preparedness has been able to incorporate some of the missing data elements required by OMB Circular A-110, Subpart C into the inventory system, a project is currently underway to ensure all data requirements are met.
Anticipated Completion Date (if not Fully corrected).	August 30, 2011

Agency	Department of Health and Social Services: Division of Public Health
Finding Number	08-DPH-03
Related Prior Year Findings	04-DPH-06, 05-DPH-06, 06-DPH-08, 07-DPH-09
Current Year Finding	None
Program Name (CFDA No.)	Centers for Disease Control and Prevention, Investigations, and Technical Assistance (93.283)
Condition	We noted that, in order to ensure provider claims are accurately paid, significant manual manipulation of the Screening for Life (SFL) database is required, including: ▪ Reviewing the data for duplicate claims and suppressing payment on duplicates as appropriate. ▪ Reviewing and changing as appropriate State appropriation codes and fiscal years. ▪ Reviewing suspended items for propriety and changing status as appropriate. ▪ Reviewing claims denied for propriety and changing status as appropriate. We also noted that: ▪ There is no up-to-date system documentation including support of changes that have been made to the system since inception, which may result in difficulties in updating the SFL system for programmatic changes. ▪ The system is based on Access 97, which is an application that is no longer supported by Microsoft. This may result in difficulties in updating the SFL system for programmatic changes. ▪ Test and production databases are on the same server, which may result in data being erroneously changed. ▪ The system does not include all MDE's mandated by the grantor, which may result in difficulty providing adequate screening data to the grantor agency. ▪ Physical and logical security surrounding the SFL system contain weaknesses, such as the ability of users to potentially by-pass the data entry screens and manipulate underlying data, that may result in data being changed without the knowledge of program personnel. Total breast/cervical screening claims paid with federal funds for the year ended June 30, 2008 were $508,814. This amount impacts other financially related compliance requirements, including matching, maintenance of effort, period of availability, and financial reporting. Total expenditures for CFDA number 93.283 were $10,878,883.
Recommendation	We recommend that the SFL Program continue to implement its corrective action plan, which includes a proposal to enhance the Screening for Life database to a server modular based application.
Agency Contact Name	Jill Rogers
Agency Contact Phone Number	(302) 744-1000
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☐

	Action taken different than original Corrective Action Plan.☒ No longer warranting further action.☐
Description of Status	The SFL Database is being moved to a SQL server within the network. The Program anticipates that test and production databases will be separate. Once the databases are moved to a more stable platform (SQL) all data will be secured. Upgrades to the system will take place during the time the system is combined with the Community Health Access Program (CHAP). Many weaknesses mentioned above will be corrected once the program is on SQL server. At this time the system does include all MDEs mandated by the grantor and the program is able to provide this information to the grantor.
Anticipated Completion Date (if not Fully corrected).	Partial completion no later than June 29, 2011. Additional upgrades/changes will occur between July 2011 and June 2012.

Agency	Department of Services for Children, Youth, and Their Families
Finding Number	09-CYF-01
Related Prior Year Findings	04-CYF-01, 05-CYF-01, 06-CYF-01, 07-CYF-01, 08-CYF-01
Current Year Finding	None
Program Name (CFDA No.)	Foster Care – Title IV-E (93.658)
Condition	The DHHS Office of Inspector General issued report number A-03-03-00562 dated July 6, 2005 covering the five-year audit period October 1, 1998 to September 30, 2003 that stated, in part: “Delaware’s cost allocation plan describes the procedures used to identify, measure, and allocate administrative and training costs among benefiting federal and State programs. DCA approved Delaware’s cost allocation plan 95-1 in March 1999. The plan was effective from October 1998 through September 1999. In December 1999, DCA approved cost allocation plan 95-2, effective October 1999. After approval of plan 95-2, ACF [DHHS, Administration for Children and Families] regional officials noted unanticipated increases in Title IV-E administrative costs. ACF initiated deferral of certain costs claimed for Title IV-E candidates and requested that the Office of Inspector General audit Delaware’s claims for Title IV-E administrative and training costs developed under plan 95-2.” The report further states that: "The [State Department of Services for Children, Youth and Their Families (DSCYF)] Department of Services used the revised 95-2 methodology to allocate candidates’ case management costs…during the quarters ended December 1999 through June 2003." And that: "Beginning with the quarter ended September 2003, the Department of Services returned to the earlier method that properly allocated candidate costs to benefiting programs. However, the Department of Services did not amend its cost allocation plan." The report identifies costs of $5,859,542 (federal share) over the five-year period under audit related to the use of the 95-2 methodology, and recommends, in part, that the State "…amend its cost allocation plan to reflect the appropriate methodology for allocating administrative costs for foster care candidates." DSCYF stated its concurrence with this recommendation in its official response to the audit report, and stated its intention to amend its cost allocation plan in the December 2005-January 2006 time frame, anticipating approval from the Regional Office of the Administration for Children and Families (RO) to pilot a proposed DSCYF foster care candidacy documentation system. DSCYF, in the interim, reverted to the previously approved 95-1 methodology after discussion with DHHS. For the period under audit for purposes of the Single Audit (July 1, 2008 through June 30,

	2009), the Foster Care program was not operating under a cost allocation plan submitted in accordance with 45 CFR §95.509 and DHHS Grants Administration Manual Chapter 6-200-50. Costs allocated using the original methodology approved in the 95-1 cost allocation plan for the Foster Care program for the year ended June 30, 2009 were $1,135,673, representing 30% of the total program costs of $3,777,636. In Fiscal Year 2006, the Federal Health and Human Services Inspector General's office audited the Department's allocation of administrative and training costs to the Title IV-E program for which a final report has been issued. As a result of the uncertainty surrounding implementation of a new cost allocation plan related to Foster Care, we will not opine on compliance for this program.
Recommendation	We recommend that DSCYF continue to work with the DHHS Regional Office in implementing the recommendations included in report A-03-03-00562 which it concurred within a letter dated May 25, 2005 included as an appendix to that report.
Agency Contact Name	Christine L. Kraft , DSCYF Controller
Agency Contact Phone Number	(302) 892-4548
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☒ No longer warranting further action.☐
Description of Status	DSCYF is now in the process of rewriting the Cost Allocation Plan (CAP) so that the expenditure reports and allocation schedules contained within the Plan reflect the accounting codes and chart fields contained in Delaware's new First State Financials (FSF) management system implemented on July 19, 2010. We are also in the process of revising the CAP to include DSCYF organizational changes scheduled for implementation July 1, 2011 that will impact the cost pools contained in the Plan. Our intent is to complete the CAP for submission by the end of June 2011.
Anticipated Completion Date (if not Fully corrected).	June 30, 2011

Agency	Department of Services for Children, Youth, and Their Families
Finding Number	09-CYF-02
Related Prior Year Findings	08-CYF-02, 07-CYF-02, 06-CYF-02
Current Year Finding	None
Program Name (CFDA No.)	Foster Care – Title IV-E (93.658)
Condition	During the week of August 14, 2006, ACF staff from the Central and Regional Offices and State of Delaware staff conducted an eligibility review of Delaware's Title IV-E Foster Care program. A review of a sample of 80 cases was drawn for the review period October 1, 2005 to March 31, 2006. The review team determined 6 cases were ineligible for federal funding and concluded that Delaware's Title IV-E program was not in substantial compliance with federal child and provider eligibility requirements for the review period. During the week of April 2009, ACF staff conducted a follow up eligibility review for the Foster Care program. A review of a sample of one hundred and fifty cases from the period April 1, 2008 through September 30, 2008 was drawn and the program was found to be in substantial compliance with federal eligibility requirements. During fiscal year 2009, we tested 60 case files for provider eligibility requirements. Those files included supporting documentation showing compliance with federal child and provider requirements for the year ended June 30, 2009. However, we noted the internal controls surrounding periodic review of the case files were not being performed timely in accordance with State and agency policies.
Recommendation	We recommend that DSCYF continue to implement its corrective action plan, which includes enhancement of the controls surrounding foster care provider approval to ensure that approval requirements are met and are periodically reviewed in accordance with State and agency policies.
Agency Contact Name	Christine L. Kraft – DSCYF Controller
Agency Contact Phone Number	(302) 892-4548
Finding Status	Fully Corrected. ☐ Not Corrected or Partially Corrected. ☒ Action taken different than original Corrective Action Plan. ☐ No longer warranting further action. ☐
Description of Status	DSCYF has implemented the changes to its business process based on those recommendations. DSCYF is currently in the process of implementing the accompanying computer programming changes to the FACTS system. The changes to the FACTS system should be completed by May 2011. These recommendations are to improve the efficiency of the eligibility process. In addition, the Title IV-E Foster Care Policy and Procedures Manual was updated in December 2009 to reflect the federal standard of an annual review. In October of 2010 the manual was once again updated to include the new requirements based on the Fostering Connection for Success and Increasing Adoptions Act of 2008. Furthermore DFS has modified its current process so that each year, upon completion of annual review, each foster parent receives an updated certificate of approval that clearly

	states the start and the end date of their approved status. We have completed random monitoring of DFS foster home and some foster care contract agencies to ensure that the new certification requirement is clearly understood and has been implemented. Based on this internal review, DFS is confident that staff and contract agencies understand the requirements and are working diligently to fulfill and meet this expectation. In addition per the DFS Foster Care Policy user manual D-40: the Foster Home Coordinator shall: "a. Complete an annual review on each approved foster home within 30 days prior to the certificate end date." This allows time for any corrective actions of renewal to take place prior to expiration of current approval.
Anticipated Completion Date (if not Fully corrected).	FACTS modifications – May 2011.

Agency	Department of Services for Children, Youth, and Their Families
Finding Number	09-CYF-03
Related Prior Year Findings	N/A
Current Year Finding	None
Program Name (CFDA No.)	Adoption Assistance (93.659)
Condition	The U.S. Department of Health and Human Services (DHHS) Office of Inspector General issued report number A-03-03-00562 dated July 6, 2005 covering the five-year audit period October 1, 1998 to September 30, 2003 that stated, in part: "Delaware's cost allocation plan describes the procedures used to identify, measure, and allocate administrative and training costs among benefiting federal and State programs. DCA approved Delaware's cost allocation plan 95-1 in March 1999. The plan was effective from October 1998 through September 1999. In December 1999, DCA approved cost allocation plan 95-2, effective October 1999. After approval of plan 95-2, ACF [DHHS, Administration for Children and Families] regional officials noted unanticipated increases in Title IV-E administrative costs. ACF initiated deferral of certain costs claimed for Title IV-E candidates and requested that the Office of Inspector General audit Delaware's claims for Title IV-E administrative and training costs developed under plan 95-2." The report further states that: "The [State Department of Services for Children, Youth and Their Families (DSCYF)] Department of Services used the revised 95-2 methodology to allocate candidates' case management costs…during the quarters ended December 1999 through June 2003." And that: "Beginning with the quarter ended September 2003, the Department of Services returned to the earlier method that properly allocated candidate costs to benefiting programs. However, the Department of Services did not amend its cost allocation plan." The report identifies costs of $5,859,542 (federal share) over the five-year period under audit related to the use of the 95-2 methodology, and recommends, in part, that the State "…amend its cost allocation plan to reflect the appropriate methodology for allocating administrative costs for foster care candidates." DSCYF stated its concurrence with this recommendation in its official response to the audit report, and stated its intention to amend its cost allocation plan in the December 2005-January 2006 time frame, anticipating approval from the Regional Office of the Administration for Children and Families (RO) to pilot a proposed DSCYF foster care candidacy documentation system. DSCYF, in the interim, reverted to the previously approved 95-1 methodology after discussion with DHHS. For the period under audit for purposes of the Single Audit (July 1, 2008 through June 30, 2009), the Adoption Assistance program was not operating under a cost allocation plan

	submitted in accordance with 45 CFR §95.509 and DHHS Grants Administration Manual Chapter 6-200-50. Costs allocated using the original methodology approved in the 95-1 cost allocation plan for the Adoption Assistance program for the year ended June 30, 2009 were $235,365, representing 12% of the total program costs of $1,914,290. In Fiscal Year 2006, the Federal Health and Human Services Inspector General's office audited the Department's allocation of administrative and training costs to the Title IV-E program for which a final report has been issued.
Recommendation	We recommend that DSCYF continue to work with the DHHS Regional Office in implementing the recommendations included in report A-03-03-00562 which it concurred within a letter dated May 25, 2005 included as an appendix to that report.
Agency Contact Name	Christine L. Kraft, DSCYF Controller
Agency Contact Phone Number	(302) 892-4548
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☒ No longer warranting further action.☐
Description of Status	DSCYF is now in the process of rewriting the Cost Allocation Plan (CAP) so that the expenditure reports and allocation schedules contained within the Plan reflect the accounting codes and chart fields contained in Delaware's new First State Financials (FSF) management system implemented on July 19, 2010. We are also in the process of revising the CAP to include DSCYF organizational changes scheduled for implementation July 1, 2011 that will impact the cost pools contained in the Plan. Our intent is to complete the CAP for submission by the end of June 2011.
Anticipated Completion Date (if not Fully corrected).	June 30, 2011

Agency	Department of Services for Children, Youth, and Their Families
Finding Number	09-CYF-04
Related Prior Year Findings	N/A
Current Year Finding	None
Program Name (CFDA No.)	Adoption Assistance (93.659)
Condition	For nine of the 60 cases selected for testwork, although the children were eligible for the program, the adoption agreements were not signed before the order of adoption.
Recommendation	We recommend that DSCYF implement an action plan, which includes enhancement of the controls surrounding adoption agreement approval to ensure that approval requirements are met and are periodically reviewed in accordance with State and agency policies.
Agency Contact Name	Christine L. Kraft, DSCYF Controller
Agency Contact Phone Number	(302) 892-4548
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	As of February 2011, DSCYF Fiscal has returned a total of $153,486 in Adoption Assistance funds for six of the nine cases found in error. DSCYF believes the remaining three cases are not in error (a total of $43,546) and is working with the US DHHS Region III ACF Office to schedule a date for their representatives to review the three remaining cases in question. Disposition of these three cases in dispute remains.
Anticipated Completion Date (if not Fully corrected).	June 2011

Agency	Office of Management and Budget
Finding Number	09-OMB-01
Related Prior Year Findings	N/A
Current Year Finding	None
Program Name (CFDA No.)	All
Condition	The State has a limited number of Federal grant awards where the award is expended by one State agency and the request for Federal reimbursement is made by another State agency. The two State agencies enter into an agreement in which one agency reimburses the other agency, via intergovernmental voucher, for the Federal program expenditures they incur. The reimbursing agency requests the drawdown of Federal funds. This process results in timing differences since the Federal program expenditures are not recorded in the State's accounting system until the intergovernmental vouchers are processed. Based on the State's analysis of these types of transactions, all reimbursements of such Federal expenditures were reimbursed within 60 days of the fiscal year end. The total dollar amount of these transactions processed in July and August 2009 (Fiscal Year 2010) were $1,066,068, which is immaterial to the Schedule of Expenditures of Federal Awards (SEFA) as a whole.
Recommendation	The State should either modify its methodology to record these transactions when expended or calculate the exact amount at fiscal year end for inclusion in the SEFA.
Agency Contact Name	Valerie M. Watson, Division of Accounting, Acting Director
Agency Contact Phone Number	(302) 672-5500
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Management assessed the methodology and was able to communicate to the State Organizations to assist with the federal expenditures being captured in the correct period. Furthermore, during fiscal year 2011 the State implemented a new accounting system. This accounting system will provide greater assurance that the expenditures will be processed in the proper period due to the integration with the modules and the new grant process.
Anticipated Completion Date (if not Fully corrected).	June 30, 2011

Agency	Department of Health and Social Services
Finding Number	09-DHSS-01
Related Prior Year Findings	07-DHSS-02, 08-DHSS-02
Current Year Finding	10-DHSS-01
Program Name (CFDA No.)	Supplemental Nutrition Assistance Program Cluster (10.551, 10.561) Temporary Assistance for Needy Families (93.558) Child Care Cluster (93.596) Social Services Block Grant (93.667) State Children's Health Insurance Program (93.767) Medicaid Cluster (93.775, 93.777, 93.778)
Condition	The Department did not follow its cost allocation plan when charging costs related to DMMA. The Public Assistance Cost Allocation Plan (PCAP) designates Division of Medicaid and Medical Assistance (DMMA) costs to be charged directly to the Medicaid program or through the indirect charge method across all DMMA programs. However, the Department was incorrectly allocating the DMMA related costs among the Division of Social Services (DSS) programs.
Recommendation	We recommend the State ensures its general ledger, Delaware Financial Management System (DFMS), is properly configured to allocate costs out of the cost pool in accordance with its approved PCAP plan. We also recommend that the PCAP plan be revised to reflect an allocation of costs to federal programs based on the true effort being provided to those federal programs. The State should also implement procedures to perform a review of the costs being allocated out of the cost pool to ensure it is being allocated in accordance with the approved PCAP.
Agency Contact Name	Harry Roberts
Agency Contact Phone Number	(302) 255-9235
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	In follow up to our March, 2010 response to this finding, Delaware Department of Health and Social Services (DHSS) would like to provide the following updates on its progress in addressing the concerns. As previously reported, in February 2010, DHSS secured assistance from an independent firm for the purpose of reviewing the department's Random Moment Sampling (RMS) process which is a vital component of the PCAP. Based on this review, changes were implemented to improve that process and the resulting allocations. This included regular updates to the employee roster from which the RMS sample is drawn and the provision of RMS training to workers that respond to the time study. Additionally, DHSS released a Request for Information (RFI) soliciting proposals from prospective vendors to replace DHSS's Random Moment Time Study (RMTS) and cost allocation system software as both applications are unsupported and outdated. Contracts were subsequently awarded and the new internet based RMTS was fully implemented on January 1, 2011 and the cost allocation software is in the process of being implemented.

	Finally, DHSS released a Request for Proposal (RFP) and subsequently awarded a contract to secure further outside assistance to perform a review of DHSS's system of Federal program administration and cost allocation including an in-depth review of the public assistance programs DHSS participates in, allocation methodologies and the supporting systems/processes. The objective of this concentrated effort is to (1) update/document the cost pools and allocation methodologies, (2) upgrade/improve the systems related to and supporting the PCAP and (3) production of an up-to-date, integrated DHSS PCAP with sound quality control procedures. Work has commenced and we target this project to be completed in calendar year 2011 with the resulting PCAP submitted to the Department of Health and Human Services Division of Cost Allocation (DCA) for approval towards the end of 2011.
Anticipated Completion Date (if not Fully corrected).	2011

Agency	Department of Health and Social Services
Finding Number	09-DHSS-02
Related Prior Year Findings	07-DPH-05; 08-DHSS-03
Current Year Findings	10-DSS-02, 10-CSE-04, 10-DPH-04, 10-DPH-07
Program Name (CFDA No.)	Block Grant for Prevention and Treatment of Substance Abuse (93.959) Social Services Block Grant (93.667)
Condition	The State uses a standard boiler plate contract to ensure adherence to the suspension and debarment requirements discussed above. However, the suspension and debarment clause in the boiler plate contract covers procurement expenditures for goods or services equal to or in excess of $100,000 instead of the $25,000 that is required for all contracts entered into after November 26, 2003 per the regulations above. The State revised its boiler plate contract during Fiscal Year 2009 to change the clause to cover all procurement expenditures equal to or in excess of $25,000. However, the revised boiler plate was not used for contracts effective for Fiscal Year 2009. The *Excluded Parties List System* (EPLS) was reviewed during the audit process, and none of the vendors included in the testing was on the EPLS. The following table details the total expenditures incurred during fiscal year 2009 related to vendor contracts entered into below the $100,000 threshold, but above the $25,000 threshold, and the amount of those expenditures included in the testing during 2009.

Federal Program	Vendor Contracts below $100,000, but above $25,000	Amount Included in 2009 Testing
Substance Abuse	$ 433,669	$ 0
SSBG	$ 801,136	$ 239,173
Totals	**$ 1,234,805**	**$ 239,173**

Recommendation	We recommend the State use its revised boiler plate contract to ensure that all procurements with federal funds are in compliance with federal procurement, suspension, and debarment requirements.
Agency Contact Name	Robert Bubacz
Agency Contact Phone Number	(302) 255-9247
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	As new contracts use the revised boilerplate with the recommended revisions, this finding should be fully corrected.
Anticipated Completion Date (if not Fully corrected).	N/A
Auditors' Response	Contracts implemented before the new boilerplate need to go through renewal process before this is completely resolved and suspension and debarment provisions need incorporated when extending/amending contracts or using non-standard contracts.

Agency	Department of Health and Social Services
Finding Number	09-DHSS-03
Related Prior Year Findings	08-DHSS-04
Current Year Findings	10-DSS-02, 10-CSE-04, 10-DPH-04, 10-DPH-07
Program Name (CFDA No.)	Supplemental Nutrition Assistance Program Cluster (10.551, 10.561) Special Supplemental Nutrition Program for Women, Infants, and Children (10.557) Capitalization Grants for Drinking Water State Revolving Funds (66.468) Immunization Grants Cluster (93.268) Child Support Enforcement Program (93.563) Temporary Assistance for Needy Families (93.558) Low-Income Home Energy Assistance Program (93.568) State Children's Health Insurance Program (93.767) Medicaid Cluster (93.775, 93.777, 93.778) HIV Care Formula Grant (93.917)
Condition	The State uses a standard boiler plate contract to ensure adherence to the suspension and debarment requirements discussed above. However, the suspension and debarment clause in the boiler plate contract covers procurement expenditures for goods or services equal to or in excess of $100,000 instead of the $25,000 that is required for all contracts entered into after November 26, 2003 per the regulations. The State revised its boiler plate contract during Fiscal Year 2009 to change the clause to cover all procurements expenditures equal to or in excess of $25,000. However, the revised boiler plate was not used for contracts effective for Fiscal Year 2009. The *Excluded Parties List System* (EPLS) was reviewed during the audit process, and none of the vendors included in the testing was on the EPLS. The following table details the total expenditures incurred during fiscal year 2009 related to vendor contracts entered into below the $100,000 threshold, but above the $25,000 threshold, and the amount of those expenditures included in the testing during 2009.

Federal Program	Vendor Contracts below $100,000, but above $25,000	Amount Included in 2009 Testing
Supplemental Nutrition Assistance Program	$ 59,781	$ 0
Special Supplemental Nutrition Assistance Program for Women, Infants, and Children	264,871	62,145
Capitalization Grants for Drinking Water State Revolving Fund	240,264	82,699
Immunization Grants	264,383	49,000
Child Support Enforcement	421,294	0
TANF	539,911	0

	<table><tr><td>SCHIP</td><td>35,140</td><td>0</td></tr><tr><td>Medicaid</td><td>26,729</td><td>0</td></tr><tr><td>HIV Care Formula Grant</td><td>543,348</td><td>0</td></tr><tr><td>**Totals**</td><td>**$ 2,505,904**</td><td>**$ 278,136**</td></tr></table>
Recommendation	We recommend the State use its revised boiler plate contract to ensure that all procurements with federal funds are in compliance with federal procurement, suspension, and debarment requirements.
Agency Contact Name	Robert Bubacz
Agency Contact Phone Number	(302) 255-9247
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	As new contracts use the revised boilerplate with the recommended revisions, this finding should be fully corrected.
Anticipated Completion Date (if not Fully corrected).	N/A
Auditors' Response	Contracts implemented before the new boilerplate need to go through renewal process before this is completely resolved and suspension and debarment provisions need incorporated when extending/amending contracts or using non-standard contracts.

Agency	Department of Health and Social Services
Finding Number	09-DHSS-04
Related Prior Year Findings	07-DSS-02, 08-DHSS-06
Current Year Finding	10-DHSS-02
Program Name (CFDA No.)	Child Care Cluster (93.596) Medicaid Cluster (93.775, 93.777, 93.778) Temporary Assistance for Needy Families (93.558)
Condition	*Child Care Cluster* The Division omitted certain costs totaling $43,049 from the ACF 696 for the quarter ended December 31, 2008 for grant expenditures made during Fiscal Year 2009 that were reported in the Delaware Financial Management System (DFMS). *Medical Assistance Cluster* The Division was not able to provide supporting documentation from DFMS to support the amounts reported in the CMS 64 related to costs allocated per the cost allocation plan for the quarter ended March 31, 2009 for grant expenditures made during Fiscal Year 2009. The unsupported amount for the CMS64 totaled $252,248. *Temporary Assistance for Needy Families* The Division was not able to provide supporting documentation from DFMS to support the amounts reported in the ACF 196 for grant year 2009, 2008, 2007 and 2006 for expenditures made during Fiscal Year 2009. The unsupported amount for the ACF 196 reports totaled $551,000. In addition, due to the lack of supporting documentation for the amounts presented on these reports, we were not able to test compliance with the level of effort and earmarking requirements.
Recommendation	We recommend that management maintain copies of supporting documentation for all reports required by the grant.
Agency Contact Name	Harry Roberts
Agency Contact Phone Number	(302) 255-9235
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	In follow up to our March, 2010 response to this finding, DHSS would like to provide the following updates on its progress in addressing the concerns. As previously reported, in February 2010, DHSS secured assistance from an independent firm for the purpose of reviewing the department's Random Moment Sampling (RMS) process which is a vital component of the Public Assistance Cost Allocation Plan (PCAP). Based on this review, changes were implemented to improve that process and the resulting allocations. This included regular updates to the employee roster from which the RMS sample is drawn and the provision of RMS training to workers that respond to the time

	study. Additionally, DHSS released a Request for Information (RFI) soliciting proposals from prospective vendors to replace DHSS's Random Moment Time Study (RMTS) and cost allocation system software as both applications are unsupported and outdated. Contracts were subsequently awarded and the new internet based RMTS was fully implemented on January 1, 2011 and the cost allocation software is in the process of being implemented. Finally, DHSS released a Request for Proposal (RFP) and subsequently awarded a contract to secure further outside assistance to perform a review of DHSS's system of Federal program administration and cost allocation, including an in-depth review of the public assistance programs DHSS participates in, allocation methodologies and the supporting systems/processes. The objective of this concentrated effort is to (1) update/document the cost pools and allocation methodologies, (2) upgrade/improve the systems related to and supporting the PCAP and (3) production of an up-to-date, integrated DHSS PCAP with sound quality control procedures. Work has commenced and we will target this project to be completed in calendar year 2011 with the resulting PCAP submitted to the Department of Health and Human Services Division of Cost Allocation (DCA) for approval towards the end of 2011.
Anticipated Completion Date (if not Fully corrected).	2011

Agency	Department of Health and Social Services
Finding Number	09-DHSS-05
Related Prior Year Findings	N/A
Current Year Finding	None
Program Name (CFDA No.)	Temporary Assistance for Needy Families (93.558)
Condition	For three of the 60 cases selected for testwork in 2009, we noted that the Division was not able to provide supporting documentation for the work participation status submitted to the Administration for Children and Families, Department of Health and Human Services in the ACF-199 Data Report.
Recommendation	We recommend that the Division maintain copies of supporting documentation for all cases submitted on the ACF-199 report in accordance with federal regulation as stated in their TANF Work Verification Plan.
Agency Contact Name	Barbara H. Hanson
Agency Contact Phone Number	(302) 255-9580
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Overall, the corrective action plan is on track to be fully completed by December 31, 2010. The first component of the corrective action plan is to provide TANF refresher training for all DSS employees. Currently the Learning Management System is in the process of being installed and will be available to begin training DSS staff by September 1, 2010. The TANF courses will be developed during September and October and staff will be trained during November and December. This will complete the project by the December 31 target date. The second component of the corrective action plan has been implemented. DSS staff began referring clients to the Jewish Employment Volunteer Service (JEVS) for medical evaluation in September 2009. Since then 720 clients have been referred to JEVS and 140 applications for SSI disability have been submitted. During SFY11 all current clients will have been reviewed and all new clients will be referred. To date 14 SSI applications have been approved, another 30 clients have become employed, and 101 clients have been sanctioned. Overall DSS has been very pleased with the performance of this program.
Anticipated Completion Date (if not Fully corrected).	December 2010

Agency	Department of Health and Social Services: Division of Services for Aging and Adults with Physical Disabilities
Finding Number	09-AGI-01
Related Prior Year Findings	02-AGI-01, 02-DHSS-01, 03-AGI-01, 04-AGI-01, 05-AGI-01, 06-AGI-01, 07-AGI-01, 08-AGI-01
Current Year Finding	None
Program Name (CFDA No.)	Social Services Block Grant (93.667)
Condition	For employees who work on multiple cost objectives, the Division of Services for the Aging and Adults with Physical Disabilities (DSAAPD) has not yet developed a system to accurately allocate costs based on actual effort.
Recommendation	We recommend that the DSAAPD continue development of procedures to allocate salaries based on time studies performed in accordance with its Summary Status of Prior Year Findings.
Agency Contact Name	Albert Griffith
Agency Contact Phone Number	(302) 255-9355
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Fully Corrected and implemented.
Anticipated Completion Date (if not Fully corrected).	N/A

Agency	Department of Health and Social Services: Division of Child Support Enforcement
Finding Number	09-CSE-01
Related Prior Year Findings	04-CSE-01, 05-CSE-01, 06-CSE-01, 04-CSE-02, 05-CSE-02, 06-CSE-02, 07-CSE-01, 08-CSE-01
Current Year Findings	10-CSE-02, 10-CSE-03
Program Name (CFDA No.)	Child Support Enforcement (93.563)
Condition	In prior years, it was recommended that the Division of Child Support Enforcement (DCSE) establish appropriate steps to review worklists generated by the Delaware Automated Child Support Enforcement System (DACSES) computer system to determine cases requiring action in order to provide adequate lead time for employees to complete actions necessary to comply with time requirements. It was also recommended that DCSE enhance DACSES to include documentation regarding: • Documentation of health insurance coverage obtained by the custodial parent, • Confirmation of health insurance available (or unavailable) at a reasonable cost by the non-custodial parent, and • Additional enforcement action taken to obtain available reasonable-cost health insurance. It was further recommended that DCSE replace DACSES with a computer system that could better facilitate establishment of paternity, support and medical support obligations. It is also noted DCSE should ensure evidence of appropriate documentation of programmer access or change control for programmers be maintained in the new computer system. DCSE continues to work toward implementation of these recommendations. However, per DCSE's Summary Status of Prior Year Findings, recommendations were only partially implemented as of June 30, 2009. In the current year, three out of 60 cases selected for testwork of Medical Support Obligations had no record of an attempt to establish support for enforcement of support obligations and four out of 60 cases were established outside of the required timeframes. Also, in the current year, three out of 60 cases selected for testwork of provisions for Child Support Services for Interstate cases were established outside of the required timeframes.
Recommendation	We recommend that management continue with its corrective action plan including the following initiatives: • Work list management initiative • Training initiative • Redistribution of caseloads • Division of Child Support Enforcement/Division of Social Services interface • New post-court DACSES screen • National medical support notice • New DACSES system
Agency Contact Name	Theodore Mermigos and Midge Holland

Agency Contact Phone Number	(302) 395-6520
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	As an update to the corrective action plan, the DACSES Work List Management training continues to be conducted statewide with division employees. The latest Statewide training session was completed March 31, 2010. Additionally, work continues on the new DACSES system project. DCSE completed negotiations with the selected vendors for implementation and QA in March 2010 and DCSE approved the contracts in May 2010. The Implementation and QA vendors officially started the project ramp- up on June 1, 2010 and the project kickoff was held on June 10, 2010. The team began Joint Application Design sessions and requirements validation on July 15, 2010 and the entire project team will move into the project site during the first week of August 2010.
Anticipated Completion Date (if not Fully corrected).	SFY 2013

Agency	Department of Health and Social Services: Division of Public Health
Finding Number	09-DPH-01
Related Prior Year Findings	06-DPH-01, 07-DPH-01, 08-DPH-01
Current Year Finding	10-DPH-01
Program Name (CFDA No.)	Immunization Grants (93.268) HIV Care Formula Grants (93.917)
Condition	<u>Immunization Grants</u> Employees who are charged 100% to the program complete semi-annual certifications in accordance with OMB Circular A-87. However, for employees who work on multiple cost objectives, the Division of Public Health has not yet fully implemented a system to accurately allocate costs based on actual effort. Two out of 23 employees selected for testing did not accurately certify their time. <u>HIV Care Formula Grants</u> Employees who are charged 100% to the program complete semi-annual certifications in accordance with OMB Circular A-87. However, for employees who work on multiple cost objectives, the Division of Public Health has not yet fully implemented a system to accurately allocate costs based on actual effort. Two out of nine employees selected for testing did not accurately certify their time.
Recommendation	We continue to recommend an internal control be implemented at the program level to reconcile semi-annual cost certifications to the budget and allocate the differences to each federal grant. We also recommend all certifications are maintained on file as support for each employee’s time charged to the grant.
Agency Contact Name	Martin Luta
Agency Contact Phone Number	(302) 744-1050
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Quarterly time studies are being conducted beginning July 1, 2010 for employees who are working on multiple cost objectives. Each quarterly time study will be signed by the employee and an authorizing official who is in a position to verify the quarterly studies as accurate. Each quarterly time study is for 20 randomly selected work days. Percentages will then be determined for each cost objective worked on. These percentages will then be used to determine whether any salary charge adjustments are necessary for that quarter. Each employee and an authorizing official will continue to complete and sign monthly time and effort reports. For the initial quarter of this fiscal year (2011), the monthly time and effort reports will be based on budgeted figures. However for each quarter thereafter, the monthly time and effort reports will be based on the percentages calculated from the previous quarter. If salary percentage charge variances exceed 10%, adjustments will be made quarterly. If they are less than 10%, they will be made annually.

Anticipated Completion Date (if not Fully corrected).	With the implementation of corrective action, in October 2010, the first quarter time studies will be available to determine proper charges for the first quarter FY 2011.

Agency	Department of Health and Social Services: Division of State Service Centers
Finding Number	09-SSC-01
Related Prior Year Findings	N/A
Current Year Finding	10-SSC-08
Program Name (CFDA No.)	Low Income Home Energy Assistance Program (93.568) Weatherization Assistance for Low-Income Persons (81.042)
Condition	*LIHEAP* For the one vendor out of four vendors selected for testwork, the Division did not follow the proper procurement process. The Division could not provide supporting documentation that the vendor was selected through a competitive bidding process or that an approved exception to the process (sole source statement) had been made. The Division did not provide an executed contract in place covering fiscal year 2009. *Weatherization* For the one vendor out of two vendors selected for testwork, the Division did not follow the proper procurement process. The Division could not provide supporting documentation that the vendor was selected through a competitive bidding process or that an approved exception to the process (sole source statement) had been made.
Recommendation	We recommend that the Division ensure that all contracts awarded with federal funds are awarded on a competitive basis in accordance with the State's procurement policies and procedures. In cases where competition is limited, justification and approval should be documented in the contract file via a sole source statement. We also recommend that a current executed contract is in place for all active contracts.
Agency Contact Name	Mary Dupont
Agency Contact Phone Number	(302) 255-9695
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Updated Purchasing and Procurement Procedures have been established for the Division.
Anticipated Completion Date (if not Fully corrected).	July 23, 2010

Agency	Department of Health and Social Services: Division of State Service Centers
Finding Number	09-SSC-02
Related Prior Year Findings	N/A
Current Year Finding	None
Program Name (CFDA No.)	Weatherization Assistance for Low-Income Persons (81.042)
Condition	A time certification for the sole employee who is charged 100% to the program could not be provided.
Recommendation	We recommend that a certification is completed and maintained on file as support for that employee's time charged to the grant.
Agency Contact Name	Mary Dupont
Agency Contact Phone Number	(302) 255-9695
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The semi-annual time certification was completed for the single individual for the time period in question and the procedure was implemented to ensure that the required time certification is completed in the future. These actions were completed on February 17, 2010.
Anticipated Completion Date (if not Fully corrected).	N/A

Agency	Department of Health and Social Services: Division of State Service Centers
Finding Number	09-SSC-03
Related Prior Year Findings	N/A
Current Year Finding	10-SSC-03
Program Name (CFDA No.)	Weatherization Assistance for Low-Income Persons (81.042)
Condition	The Division's policy is to perform a review of expenditure reimbursement requests submitted from the subrecipients to meet the requirements noted in the criteria section above. For 7 out of the 23 expenditures selected for testwork, there was evidence of the Division's review; however, the Division did not maintain sufficient evidence with the invoice to ensure the expenditures were in accordance with the applicable federal regulations above or in accordance with the rates agreed upon in the contract with the subrecipients. Also, per our review of the site visit documentation, it was not adequate to document the Division's review of the expenditure detail and case file review it performs during its site visits to ensure the subrecipients' adherence to the federal regulations. Total expenditures submitted for reimbursement for the fiscal year ended June 30, 2009 was $417,151 for both subrecipients.
Recommendation	We recommend that the Division enhance its current policies and procedures over subrecipient reimbursements of allowable costs and subrecipient monitoring to ensure that its subrecipients remit adequate documentation to allow the Division to ensure federal allowability requirements have been met.
Agency Contact Name	Mary Dupont
Agency Contact Phone Number	(302) 255-9695
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☒ No longer warranting further action.☐
Description of Status	DSSC has hired a former state auditor as well as temporary staff to prepare a reconciliation of weatherization expenditures. This will allow for a detailed review to determine the proper allocation of funds to each home that participated in the program. Policy and procedures will be developed ensure proper sub recipients documentation and payments. The monitoring visits originally described in the above "Corrective Action Plan" section did occur, but unfortunately the subsequent Weatherization program monitoring visits conducted by the Department of Energy (DOE) found these efforts to be inadequate. When the Division originally outlined their Corrective Action Plan, they relied on the Weatherization Program Manager (26 years in the position), to conduct the program monitoring visits, oversee the inspections of the dwelling units, and issue reports to the Division regarding the program status. Subsequent to these monitoring visits, the Department of Energy conducted a monitoring visit and issued a report dated May 3, 2010, indicating that the program suffered from significant deficiencies in performance quality. DOE then conducted a follow-up monitoring visit, detailed in a report dated June 23, 2010 and received by DHSS on July 2, 2010. In this report, DOE indicated that both the monitoring of files and dwelling

	units were inadequate and failed to identify obvious program deficiencies. Intensive corrective action followed by the department to address the shortcomings of the program. Much progress was made by DHSS over the past four months through a re-engineering of the program. Finally, it should be noted that per the FY-11 State Budget Act, all functions of the Weatherization Program are slated to be moved to the Delaware Department of Natural Resources and Environmental Control (DNREC) during FY-11. DHSS is working with DNREC and the Administration to effectuate this transfer at a date yet to be determined.
Anticipated Completion Date (if not Fully corrected).	Although corrective action is progressing, the potential movement of this program to the Department of Natural Resources makes it difficult to establish a completion date.

Agency	Department of Safety and Homeland Security Delaware Emergency Management Agency
Finding Number	09-DSHS-01
Related Prior Year Findings	08-DSHS-02
Current Year Finding	None
Program Name (CFDA No.)	Homeland Security Grant Program (97.004, 97.067)
Condition	DEMA may procure goods and services from various vendors with the use of Homeland Security Grant funds. We selected five vendors that DEMA has expended more than $25,000 during fiscal year 2009 from Homeland Security Grant funds for test work. For two of the five vendors selected for test work, DEMA did not verify that the entity was not suspended or debarred.
Recommendation	We recommend that DEMA ensure existing policies and procedures are in place and followed to ensure that the required suspension and debarment requirement is reviewed prior to execution of the vendor contract.
Agency Contact Name	*Bob Harrison*
Agency Contact Phone Number	*(302) 659-2244*
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	All DEMA personnel with contracting responsibilities have been briefed again on this requirement. In addition, a print out of the EPLS search page has been placed in each vendor's file to document our review to ensure the vendor is not on the EPLS.
Anticipated Completion Date (if not Fully corrected).	N/A

Agency	Delaware National Guard
Finding Number	09-DNG-01
Related Prior Year Findings	N/A
Current Year Finding	10-DNG-02
Program Name (CFDA No.)	National Guard Military Operations and Maintenance (O&M) Projects (12.401)
Condition	Capital Outlays are reviewed and approved by authorized signors and correspondingly recorded to the Financial System (DFMS) report. For one out of 22 capital outlays selected for testing, the asset was erroneously recorded as Computer Software as opposed to Computer Hardware. The State's threshold for Computer Software is $1M while the threshold for Computer Hardware is $25K. Incorrectly categorized hardware purchases may go unrecorded in DFMS. The total amount of the miscoded purchase was $40,067.
Recommendation	We recommend that DNG reinforce policies and procedures to ensure that all capital outlays are appropriately reviewed and recorded.
Agency Contact Name	Art Caldwell
Agency Contact Phone Number	(302) 326-7160
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DNG more diligently reviewed and checked all Capital Outlay purchases during FY 2010 to ensure that each cost description Object Code was accurate and valid. A formal reconciliation process to ensure that all Federal as well as State capital outlays are appropriately reviewed and recorded began during the quarter ended September 30, 2010.
Anticipated Completion Date (if not Fully corrected).	September 2010

Agency	Delaware National Guard
Finding Number	09-DNG-02
Related Prior Year Findings	N/A
Current Year Finding	None
Program Name (CFDA No.)	National Guard Military Operations and Maintenance (O&M) Projects (12.401)
Condition	For 6 out of 9 vendors selected for testing, KPMG noted that the contracts did not contain language requiring the vendor to certify that they were not suspended or debarred, and even though Management reviews the *Excluded Parties List System* (EPLS) website to determine the vendors' status, there is no documentation or record of this process prior to March 2009. Total expenditures paid to these 6 vendors selected for testing totaled $3,297,799. Total expenditures paid to vendors above $25,000 during Fiscal Year 2009 totaled $5,290,496.
Recommendation	We recommend that DNG continue to reinforce the application of policies and procedures to ensure that required suspension and debarment verification procedures are performed and documented.
Agency Contact Name	Art Caldwell
Agency Contact Phone Number	(302) 326-7160
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DNG began documenting its EPLS website review on all pending contracts in March 2009 and has continued to do so. In addition, all contracts issued by DNG for $25,000 or more have a Non-Collusion and EPLS Certification form which is signed by all bidders certifying they are not suspended or debarred.
Anticipated Completion Date (if not Fully corrected).	N/A

Agency	Department of Labor
Finding Number	09-DOL-01
Related Prior Year Findings	08-DOL-02
Current Year Finding	10-DOL-02
Program Names (CFDA No.)	Vocational Rehabilitation Cluster (84.126, 84.390)
Condition	For two out of 40 clients selected for testing, the client's eligibility for services was not determined within the required 60-day timeframe. One client's eligibility was determined in 98 days while the other client's eligibility was determined in 196 days after receipt of the application. Only the former was ultimately determined to be eligible to receive services while the latter correctly did not have any associated expenditures.
Recommendation	DOL should utilize its resources to monitor status of eligibility determinations with aging report or tickler system to insure they are made within the required 60-day timeframe, unless exceptions granted by the federal regulations occur and are properly documented in the client file.
Agency Contact Name	Kris Brooks
Agency Contact Phone Number	(302) 761-8024
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DVR will exercise due diligence in adhering to current policies and procedures for ensuring that eligibility determinations are made within the 60-day timeframe, including training on policies and procedures, quality assurance reviews and greater supervisory monitoring.
Anticipated Completion Date (if not Fully corrected).	Ongoing

Agency	Department of Labor
Finding Number	09-DOL-02
Related Prior Year Findings	08-DOL-04
Current Year Finding	10-DOL-08
Program Names (CFDA No.)	WIA Cluster (17.258, 17.259, 17.260)
Condition	In determining if a client is eligible for WIA benefits, a case manager prepares an Employment Development Plan (EDP) justifying the training the client should receive with WIA funds. A manager reviews the EDP and approves or denies the client for services. For two out of 60 clients selected for testing, although they were eligible, the EDPs were not signed by a manager to document review. The total amount of benefits paid on behalf of these clients was $1,293.96.
Recommendation	We recommend that DOL reinforce policies and procedures to ensure that all EDPs are appropriately signed by a supervisor to document proper review.
Agency Contact Name	Kris Brooks
Agency Contact Phone Number	(302) 761-8024
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	E&T has reinforced its policies and procedures to include that no case can be approved without a Supervisor signature on the written EDP.
Anticipated Completion Date (if not Fully corrected).	N/A
Auditors' Response	Although policy is reinforced, current year findings are still noted.

Agency	Department of Labor
Finding Number	09-DOL-03
Related Prior Year Findings	N/A
Current Year Finding	None
Program Names (CFDA No.)	Unemployment Insurance (17.225)
Condition	In recording retirement pay, the payroll department notifies the fiscal department of retirees which triggers the preparation of an entry, and the retirement payout (in excess of actual time and effort for the pay period) is transferred to the Office of the Secretary's personnel costs to be allocated indirectly. For one out of 40 employees selected for testing, the retirement payout of vacation and sick time was not identified and transferred out of the UI program to overhead. The total amount of salary costs charged to the program for this employee is $13,970.37 of which $11,286.65 represents retirement leave payout. Per an analysis of all retirement payouts during the fiscal year, an additional 4 exceptions totaling $2,365.18 were identified.
Recommendation	We recommend that DOL establish policies and procedures to ensure controls exist to ensure the timely notification of the retirement of program personnel, and the recording of necessary adjustments.
Agency Contact Name	Kris Brooks
Agency Contact Phone Number	(302) 761-8024
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	DOL Human Resources now has policies and procedures in place to notify the Controller's Office at the close of each pay cycle of any federally funded employees who separate from the Department.
Anticipated Completion Date (if not Fully corrected).	N/A

Agency	Department of Education
Finding Number	09-ED-01
Related Prior Year Findings	08-ED-03
Current Year Finding	10-ED-01
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies (84.010) Special Education Cluster (84.027, 84.173) Improving Teacher Quality State Grants (84.367)
Condition	As noted in the prior year, the Delaware Department of Education (DOE) has provided the school districts with a template for determining their indirect cost rates. While the template properly excludes the compensation of the chief executive officer (the superintendent), there is no evidence that the operation of the immediate offices of that officer (direct reports) are being properly excluded from general management costs.
Recommendation	We continue to recommend that the DOE review its indirect cost rate template and ensure that all unallowable costs have been properly captured by the school districts and make adjustments to the template or its indirect cost rate instructions, as necessary.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Emily Falcon
Agency Contact Phone Number	(302) 735-4040
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Changes were made to the indirect cost template in the last quarter of fiscal year 2010.
Anticipated Completion Date (if not Fully corrected).	July 1, 2010

Agency	Department of Education Brandywine School District Indian River School District Red Clay School District Sussex Tech School District
Finding Number	09-ED-02
Related Prior Year Findings	06-ED-11, 07-ED-04, 08-ED-04
Current Year Finding	10-ED-02
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies (84.010) Special Education Cluster (84.027, 84.173) Improving Teacher Quality State Grants (84.367)
Condition	*Brandywine School District* Based on a sample of 20 payroll expenditures totaling $28,240, one employee totaling $1,291 charged to Title I was missing a time and effort report and three employees totaling $5,115 charged to Improving Teacher Quality State Grants program were missing time and effort reports. In addition, nine employees totaling $14,726 charged 100% of their time to the Special Education program based only on a 100% unapproved annual roster, rather than a semi-annual certification. Another six employees totaling $5,911 were charged to federal programs, but either did not indicate the specific timeframe for the charges or failed to account for 100% of their activities on their time and effort reports. Total salaries and benefits charged by the Brandywine School District to major federal programs amounted to $5,055,466. *Indian River School District* Based on a sample of 10 payroll expenditures totaling $12,310, three employees totaling $3,255 charged to Title I were missing time and effort reports and four employees totaling $6,327 charged to Improving Teacher Quality State Grants program were missing time and effort reports. In addition, two employees being charged to Title I for $2,096 and one employee being charged to Special Education for $733 were charged 100% based on an annual roster, rather than a semiannual or monthly certification. Total salaries and benefits charged by the Indian River School District to federal programs amounted to $3,813,430. *Red Clay School District* Based on a sample of 28 payroll expenditures totaling $52,352, two employees totaling $4,909 charged to Title I were missing time and effort reports and one employee totaling $800 charged to Special Education was a missing time and effort report. In addition, one employee’s time and effort report percentage did not agree to the amount actually charged to Title I by $52 (overcharge). Similarly, seven employees’ time and effort reports percentages did not agree to the amount actually charged to Improving Teacher Quality State Grants by $3,893 (undercharge). Furthermore, one employee’s time and effort report charged to Title I in the amount of $468 was signed prior to the completion of the time and effort’s time period. Total salaries and benefits charged by the Red Clay School District to federal programs amounted to $5,986,905. *Sussex Tech School District* Based on the one payroll sample tested totaling $1,801, the employee charged 100% of their time to the Improving Teacher Quality program based on an annual report rather than semi-

	annual certifications. Total salaries and benefits charged by the Sussex Tech School District to the Improving Teacher Quality program amounted to $444,767.
Recommendation	We recommend that the above school districts maintain personnel activity reports (effort reports) for all employees who work on multiple programs or obtain semi-annual certifications for employees that have been solely engaged in activities supported by one funding source. These effort reports should be signed to reflect actual effort expended.
Agency Contact Name	Emily Falcon
Agency Contact Phone Number	(302) 735-4040
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Desk Audit Checklist was created which incorporates Time and Effort reporting. All LEAs (Local Educational Agencies) will be checked for compliance. The DOE Financial Reform Resources will also institute updated procedures to ensure that all DOE staff are completing Time and Effort reporting as appropriate. Additional guidance will be issued to LEAs to ensure that they understand the requirements for compliance.
Anticipated Completion Date (if not Fully corrected).	October 2011

Agency	Department of Education Christina School District
Finding Number	09-ED-03
Related Prior Year Findings	07-ED-06, 08-ED-05
Current Year Finding	None
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies (84.010)
Condition	The School District did not obtain a formal positive confirmation from the Delaware Department of Education to consolidate its administrative funds until April 23, 2009.
Recommendation	We recommend that the School District continue to monitor the consolidation of administrative funds and ensure the proper time and effort reports are completed.
Agency Contact Name	Robert Silber
Agency Contact Phone Number	(302) 552-2614
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Completed
Anticipated Completion Date (if not Fully corrected).	N/A

Agency	Department of Education School Districts
Finding Number	09-ED-04
Related Prior Year Findings	N/A
Current Year Finding	10-ED-04
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies (84.010) Special Education Cluster (84.027, 84.173) Improving Teacher Quality State Grants (84.367)
Condition	Based on a review of the maintenance of effort (MOE) calculations done for the overall federal programs by the eight school districts we visited, we noted the following items: • The Brandywine School District excluded debt service expenditures from its MOE calculations. • The Polytech School District truncated two figures and their federal expenditure amount did not agree to the annual financial statement line item. • The Red Clay School District excluded capital outlay and debt service expenditures from its MOE calculations. • The Sussex Tech School District's federal expenditure amount did not agree to the annual financial statement line item.
Recommendation	We recommend that the Delaware Department of Education reinforce to the School Districts how the MOE template should be completed and develop procedures to ensure that the School Districts' MOE calculations have been completed accurately.
Questioned Costs	There are no questioned costs associated with this finding.
Agency Contact Name	Emily Falcon
Agency Contact Phone Number	(302) 735-4040
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The MOE calculations have been automated to ensure accuracy. All data is now pre-populated from the DOE data warehouse. LEAs must coordinate with DOE to make changes to the data as calculated. DOE Financial Reform Resources staff will ensure that the MOE calculations are done in compliance.
Anticipated Completion Date (if not Fully corrected).	July 2010

Agency	Department of Education
Finding Number	09-ED-05
Related Prior Year Findings	N/A
Current Year Finding	10-ED-06
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies (84.010) Special Education Cluster (84.027, 84.173) Improving Teacher Quality State Grants (84.367)
Condition	In connection with our review of the Delaware Department of Education's (DOE) compliance requirements applicable to its reporting to the ED, we performed a review of the DOE's information technology (IT) general controls over the eSchoolPlus systems and the Delaware Student Information System (DELSIS). Based on our review, we noted the following items: *Account Access* • Active accounts for employees no longer employed are still present. In addition, one of the School District's active accounts runs batch processes used by a School District. It could not be determined that the accounts were completely deactivated/disabled. Neither precise permission/access of the account nor unavailability of former employees to access the account was verified. Accordingly, there have not been periodic reviews of such user accounts. *Change Management – Limited Program Enhancement/Bug Fixed Monitoring* • The DOE IT department does not follow a policy or procedure for application change management. Change management is only tracked for select applications. Current change management ticketing software does not administer any segregation of duties or require administrative or quality review prior to ticket closure. *Change Management – Limited System Development Lifecycle Procedure Guidance* • The DOE IT department continually implements internally developed applications and purchase software applications without aid of approved policy or procedures for project management. Observations at the DOE and School Districts indicate limited adherence to best practices of project management despite committee oversight. *Helpdesk* • While the Helpdesk is available for end users issue resolution, users requiring immediate attention successfully circumvent the Helpdesk by directly communicating with DOE IT staff. No documentation is retained specifying the precise initiator, issue or resolution.
Recommendation	We recommend that the DOE IT department develop and implement formal policies and procedures to address the items noted above.
Agency Contact Name	Robert E. Czeizinger
Agency Contact Phone Number	(302) 735-4140
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒

	Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Only Change Management has not been corrected.
Anticipated Completion Date (if not Fully corrected).	Remaining funding outstanding is expected to be completed by April 2011.

Agency	Department of Education Brandywine School District Indian River School District
Finding Number	09-ED-06
Related Prior Year Findings	08-ED-07
Current Year Finding	None
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies (84.010)
Condition	*Brandywine School District* We noted that the fifth element in b. above [i.e., (5) Transition plans for assisting preschool children in the successful transition to the schoolwide program (34 CFR section 200.28(e))] was not included in one of the two schoolwide plans we reviewed. The District had seven schoolwide programs during the year ended June 30, 2009. *Indian River School District* We noted that the third and fifth elements in b. above [i.e., (3) Strategies to increase parental involvement (34 CFR section 200.28(c)), and (5) Transition plans for assisting preschool children in the successful transition to the schoolwide program (34 CFR section 200.28(e))] were not included in the two schoolwide plans we reviewed. The District had eight schoolwide programs during the year ended June 30, 2009.
Recommendation	We recommend that the School Districts develop procedures to ensure each schoolwide plan incorporates all necessary components required by the Federal regulations.
Brandywine School District	
Agency Contact Name	David Blowman
Agency Contact Phone Number	(302) 793 -5045
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Corrected.
Anticipated Completion Date (if not Fully corrected).	N/A
Indian River School District	
Agency Contact Name	Patrick Miller
Agency Contact Phone Number	(302) 436-1079
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐

Description of Status	Completed
Anticipated Completion Date (if not Fully corrected).	N/A

Agency	Department of Education
Finding Number	09-ED-07
Related Prior Year Findings	N/A
Current Year Finding	10-ED-09
Program Name (CFDA No.)	Title I Grants to Local Educational Agencies (84.010)
Condition	During Fiscal Year 2009, the U. S. Department of Education's (ED) Student Achievement and School Accountability Programs (SASA) office reviewed the Delaware Department of Education's (DOE) administration of the Title I programs authorized by the Elementary and Secondary Education Act of 1965 (ESEA), as amended by the No Child Left Behind Act (NCLB). Based on our review of the monitoring report (Title I Monitoring Report) issued on November 5, 2009, the following findings cited below related to the compliance requirements applicable to the Title I Grant to Local Educational Agencies (LEA) as described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* for the year ended June 30, 2009. *Participation of Private School Children* The Delaware State Educational Agency (SEA) has not ensured that its LEAs met requirements regarding the selection of private school students for participation in the Title I program. *Comparability* The Delaware SEA has not ensured that its LEAs comply with the comparability requirement. The Delaware SEA staff indicated that, since the State has a policy to ensure comparability in staffing, it was only necessary for LEAs to indicate that the State had established policies to ensure equivalence among schools in staffing. *Highly Qualified Paraprofessionals* The Delaware SEA has not ensured that its LEAs complied with the hiring requirements for instructional paraprofessionals working in Title I schools.
Recommendation	We recommend that DOE implement the further actions required for each finding identified in the Title I Monitoring Report.
Agency Contact Name	Theresa Vendrzyk Kough
Agency Contact Phone Number	(302) 857-3390
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐

Description of Status	As part of the United States Department of Education (ED) monitoring process, responses and corrective actions were taken for the requirements of the participation of private school children in federal programs. The ED's Student Achievement and School Accountability (SASA) Office issued a letter in December of 2010 stating that all findings have been resolved.
Anticipated Completion Date (if not Fully corrected).	December 2010

Agency	Department of Education
Finding Number	09-ED-08
Related Prior Year Findings	N/A
Current Year Finding	10-ED-10
Program Name (CFDA No.)	Special Education Cluster (84.027, 84.173)
Condition	Based on a review of the Maintenance of Effort (MOE) calculations (Excess Cost for IDEA template) done for the Special Education Cluster by the eight School Districts we visited, we noted the following items: • The 2009 consolidated subgrant applications completed by the School Districts were supposed to calculate the Special Education maintenance of effort for Fiscal Year 2008, which requires using financial information from the second preceding year, or fiscal year 2006. We noted that five of the eight School Districts were using Fiscal Year 2007 financial information. • The template for each school district had the same exact amount for State Funds Expended In: Speech Pathology Units and Local Funds Expended In: Special Education Transportation, which appears to be formula error within the template. • The amounts used for the line items by the School Districts were not consistently determined or applied. Some School Districts used appropriation codes, some used object codes and some used a pro rata share of those expenditures based upon their special education units by total units. There was not a consistent methodology for the School Districts.
Recommendation	We recommend that DOE provide detailed guidance and training for the School Districts on the completion of the Special Education MOE template. We believe these procedures should be consistent for each School so the Special Education MOE calculations can be monitored more easily, if necessary.
Agency Contact Name	Emily Falcon
Agency Contact Phone Number	(302) 735-4040
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Procedures will be instituted to ensure that all MOE calculations are maintained in a central repository to insulate them from staff turnover issues. Additionally, DOE has taken steps to automate the MOE calculations for LEAs to ensure consistent and accurate calculations. DOE will provide additional guidance for the LEAs on these calculations to ensure their staff is knowledgeable about the MOE template and can assist in detecting any errors or inconsistencies in the calculations.

Anticipated Completion Date (if not Fully corrected).	July 2011

Agency	Department of Education
Finding Number	09-ED-09
Related Prior Year Findings	N/A
Current Year Finding	10-ED-11
Program Name (CFDA No.)	Child and Adult Care Food Program (10.558)
Condition	Based on our review of the applications of thirty subrecipients, we noted the following items: • The annual applications do not contain explicit language ensuring that the subrecipients are not ineligible for publicly funded programs due to their violation of program requirements or criminal convictions during the past seven years. • The annual applications do not contain all the required components of the performance standards. The standards require the organizations have documentation supporting 1) the organizations need and recruiting and 2) fiscal resources and financial history. In addition, renewing organizations should have documentation of fiscal accountability which includes a financial system with management controls in writing and accounting records. • Only 3 out of the thirty organizations application files had outside employment policies.
Recommendation	We recommend that DOE revise its CACFP applications to ensure all necessary components listed in the Federal regulations are explicitly incorporated.
Agency Contact Name	*David Bowman*
Agency Contact Phone Number	*(302) 735-4060*
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The condition regarding the annual applications that do not contain explicit language ensuring that the subrecipients are not ineligible for publicly funded programs was corrected October 2010. The required elements were added to the new nutrition software program application. The Delaware Nutrition Accountability and Reporting System (DENARS) has an online application component that all sponsors are required to complete prior to each fiscal year. The new system was implemented in October 2010 for CACFP. The condition regarding the annual applications that do not contain all the required components of the performance standards was corrected in October 2010. The required elements were added to the DENARS online application that all sponsors must complete annually. Additionally, these areas are covered in the administrative reviews conducted for all renewing sponsors. All new applicants are required to submit the balance sheet from their most recent audit or 2 months of checking account statements for review. This information is provided at the training. We believe this combination of modifications to forms and

	processes fully satisfies all issues outlined in this condition. In response to the condition regarding the outside employment policies, the state agency has reviewed all renewing sponsors' file documents to ensure that Outside Employment Policy Statements and all other required documents were in the files. We included these items on the annual file review checklist and have this documentation to support our position that all current files contain the required documents.
Anticipated Completion Date (if not Fully corrected).	Completed in October 2010.

Agency	Department of Education
Finding Number	09-ED-10
Related Prior Year Findings	N/A
Current Year Finding	None
Program Name (CFDA No.)	Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559)
Condition	Based on our review of the cumulative fiscal year 2009 outlays for the Child Nutrition Cluster, the Fiscal Year 2009 outlays were $1,241,127 higher than the amount recorded on Delaware Financial Management System (DFMS) for the same period. Total outlays for the Child Nutrition Cluster for fiscal year 2009 amounted to $26,129,692.
Recommendation	We recommend that the Delaware Department of Education (DOE) develop procedures to ensure all drawdowns are reconciled to the Delaware Financial Management System (DFMS) prior to being drawndown.
Agency Contact Name	Emily Falcon
Agency Contact Phone Number	(302) 735-4040
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Completed.
Anticipated Completion Date (if not Fully corrected).	N/A

Agency	Department of Education
Finding Number	09-ED-11
Related Prior Year Findings	N/A
Current Year Finding	10-ED-12
Program Name (CFDA No.)	Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559) Child and Adult Care Food Program (10.558)
Condition	While the Delaware Department of Education ensures that its applications for both Child Nutrition and Child and Adult Care Food Program include the need for subrecipients expending $500,000 or more in federal awards have an audit, there is no mechanism used to track whether any such subrecipients have confirmed that need for an OMB Circular A-133 audit and, in turn, whether the DOE should be following up on any audits performed.
Recommendation	We recommend that the Delaware Department of Education (DOE) develop procedures to ensure it adequately tracks and monitors possible audits required for its subrecipients.
Agency Contact Name	David Bowman and Huida Russell
Agency Contact Phone Number	(302) 735-4060
Finding Status	Fully Corrected.☐ Not Corrected or Partially Corrected.☒ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	The newly implemented (October 2010) CACFP portion of the DENARS application system addresses the conditions listed above. The application allows the DOE to search any sponsor to determine their compliance with the A-133 audit requirement certification statement. The application system also allows the DOE to track the current status of each sponsor's compliance. Additionally, DOE Nutrition Programs is currently developing a program processes document that will provide guidance on all activities of the program. The first three completed processes relate to A-133, including the responsibility of the agency to collect, review, and monitor audits.
Anticipated Completion Date (if not Fully corrected).	Completed in October 2010.

Agency	Department of Education Christina School District
Finding Number	09-ED-12
Related Prior Year Findings	08-ED-08
Current Year Finding	None
Program Name (CFDA No.)	Child Nutrition Cluster (10.553, 10.555, 10.556, 10.559)
Condition	The District's Child Nutrition program did not have adequate internal controls including management review and segregation of duties. A lack of sufficient internal controls within the District's Child Nutrition program resulted in a net loss of $5,498.39. We determined that the Supervisor had access to the Child Nutrition bank account including a debit card for the account. We reviewed activity in the account for the period of July 1, 2007 through October 15, 2008 and found the following: • The Director made $4,048.85 in personal purchases. • Transactions totaling $5,062.33 lacked sufficient supporting documentation. After reviewing the vendor names, type of purchases, and discussing with Christian School District (CSD) representatives, we determined that purchases totaling $3,614.64 were not for the benefit of the Child Nutrition Program. • Computer equipment was purchased with Child Nutrition funds. The District was unable to locate the Director's laptop and other computer related equipment totaling $2,151.25. • The Secretary for the Child Nutrition program indicated that the Director wrote 7 personal checks to CSD as reimbursement for his personal expenses. However, the Secretary was only able to produce documentation supporting 4 of the checks. CSD did not have support for 3 checks totaling $497.17. The 4 reimbursements reviewed, totaling $4,316.35, were all made in October 2008. • Funds in the bank account reviewed included both local school district and federal funds received by the State of Delaware under the Child Nutrition Cluster program. We were unable to determine the portion of the unauthorized expenditures or the net loss to the District that is related to federal or local funds, since the monies within this account are commingled, and expenditures from the account are not marked as to source of funding. The portion of the net loss pertaining to Fiscal Year 2009 totaled $4,293.29.
Recommendation	We recommend that the District strengthen internal controls. The following should be considered in order to strengthen controls: • Monthly bank reconciliations should be performed outside of the Child Nutrition Office. • Provide additional management oversight for all Child Nutrition operations.

	The District should adhere to established policies and procedures to ensure that transactions are appropriately approved in accordance with State and District policy and that appropriate supporting documentation is maintained with all processed transactions. In addition, the District should require repayment from the Director for the remaining net loss ($5,498.39).
Agency Contact Name	Robert A. Silber
Agency Contact Phone Number	(302) 552-2614
Finding Status	Fully Corrected. ☒ Not Corrected or Partially Corrected. ☐ Action taken different than original Corrective Action Plan. ☐ No longer warranting further action. ☐
Description of Status	Completed
Anticipated Completion Date (if not Fully corrected).	N/A

Agency	Delaware Technical and Community College Owens Campus
Finding Number	09-DTC-01
Related Prior Year Findings	None
Current Year Finding	None
Program Name (CFDA No.)	Student Financial Assistance Cluster (84.007, 84.032, 84.033, 84.063)
Condition	During our testwork on the student eligibility for Pell on the Owens campus, we noted that one student out of 40 students sampled totaling $124,913 was overawarded Pell by $814.
Recommendation	We recommend that the campus review its policies and procedures to ensure that any new ISIRs get properly updated to students' accounts as well as generate safeguards/reports that would help identify any possible overawards (negative need) and return any excess funding, as necessary.
Agency Contact Name	Financial Aid Officer: Veronica Oney
Agency Contact Phone Number	(302) 855-1667
Finding Status	Fully Corrected.☒ Not Corrected or Partially Corrected.☐ Action taken different than original Corrective Action Plan.☐ No longer warranting further action.☐
Description of Status	Immediately after the error was discovered, an audit report was created to identify erroneous ISIR records that may not have been examined properly. The financial aid officer runs the report after each batch of ISIR records is loaded into the BANNER system to ensure the PELL EFC and the award match.
Anticipated Completion Date (if not Fully corrected).	N/A